OFFERING CIRCULAR CONFIDENTIAL

SRE GROUP LTD.

SRE GROUP LIMITED
上 置 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

RMB446,900,000
US$ Settled 6% Convertible Bonds due 2014
Issue Price: 100%

We are offering RMB446,900,000 aggregate principal amount of US$ Settled 6% Convertible Bonds due 2014 (the "Bonds"). We will receive proceeds from the issuance of the Bonds in US dollars based on a fixed exchange rate of US$1.00 = RMB6.8340.

You may convert your Bonds at any time during the period from September 2, 2009 to the close of business on July 13, 2014, subject to prior redemption or repurchase, into our ordinary shares (the "Shares"). The initial conversion price will be HK$1.056 per share with a fixed exchange rate of HK$1.00 = RMB0.8818 applicable on conversion of the Bonds (representing an initial conversion ratio of 107,390.5304 Shares per RMB100,000 of Bonds), subject to adjustment for certain specified events. The Shares are listed on The Stock Exchange of Hong Kong Limited (the "HKSE") under stock code 1207. The closing price of the Shares on the HKSE on July 16, 2009 was HK$1.00 per share.

The Bonds will bear interest at the rate of 6% per annum, payable semi-annually in arrear on January 23 and July 23 of each year, commencing on January 23, 2010. The Bonds will mature on July 23, 2014 at 100% of their principal amount plus accrued interest.

You may require us to redeem all or a portion of your Bonds on July 23, 2012 at their principal amount plus accrued interest. You may also require us to redeem all but not a portion of your Bonds at their principal amount plus accrued interest upon the occurrence of a change of control or a delisting of our Shares from the HKSE. We may redeem the Bonds at our option at any time in whole only at their principal amount plus accrued interest, if at least 90% of the initial aggregate principal amount of the Bonds has been converted, redeemed or purchased and cancelled. We may also at our option redeem the Bonds in whole only at their principal amount plus accrued interest upon the occurrence of certain changes in tax laws. All payments under the Bonds will be made in US dollar equivalent of the RMB amounts based on the spot rate determined in accordance with the terms and conditions of the Bonds.

Application has been made to the HKSE for the listing of the Bonds on the HKSE. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 12.

Concurrent with this offering, SRE Investment Holding Limited, our principal shareholder, has agreed to lend up to 150,000,000 of the Shares to affiliates of the joint bookrunners, to facilitate short sales and/or privately negotiated derivative transactions by which investors in the Bonds will hedge their investment in the Bonds. Delivery of the Bonds is conditioned upon delivery of the borrowed Shares to affiliates of the joint bookrunners.

The Bonds and the Shares issuable upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or the securities laws of any other jurisdiction. The Bonds are being offered and sold outside the United States in reliance on Regulation S and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, U.S. persons unless they have been so registered or are exempt from registration. For a description of certain restrictions on offers, sales and transfers of the Bonds and the Shares issuable upon conversion of the Bonds, see "Subscription and Sale".

The Bonds will be delivered in book-entry form through the facilities of Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* on or about July 23, 2009.

Joint Bookrunners

CREDIT SUISSE Deutsche Bank

The date of this Offering Circular is July 20, 2009

* *for identification purpose only*

This Offering Circular has been prepared by us solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by us, Credit Suisse (Hong Kong) Limited and Deutsche Bank AG, Hong Kong Branch (together, the "Joint Bookrunners") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto in certain jurisdictions including the United States, European Economic Area, the United Kingdom, Hong Kong, Japan, Singapore and Bermuda, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

No person has been or is authorised to give any information or to make any representation concerning us, the Bonds or the Shares other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by us or the Joint Bookrunners. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of us or the Joint Bookrunners to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

We have submitted this Offering Circular confidentially to a limited number of institutional investors so that they can consider a purchase of the Bonds. We have not authorised its use for any other purpose. This Offering Circular may not be copied or reproduced in whole or in part, it may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular each investor agrees to these restrictions.

No representation or warranty, express or implied, is made or given by the Joint Bookrunners as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Bookrunners. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either us or the Joint Bookrunners that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary. The investor must comply with all applicable laws in any place in which the investor buys, offers or sells any Bonds or possesses this Offering Circular. The investor must also obtain any consents or approvals needed in order to purchase the Bonds. Neither we nor the Joint Bookrunners are responsible for the investor's compliance with these legal requirements.

By purchasing any Bonds, the investor acknowledges that:

- the investor has reviewed this Offering Circular;

- the investor has had an opportunity to request from us any additional information needed from us, and has reviewed such additional information; and
- the Joint Bookrunners are not responsible for, and are not making, any representation to the investor concerning our future performance or the accuracy or completeness of this Offering Circular.

This offering may be cancelled at any time up to the time when subscription moneys have been received and the Bonds issued.

This Offering Circular includes particulars given in compliance with the Listing Rules of the Hong Kong Stock Exchange for the purpose of giving information regarding us and the Bonds.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to their best knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

In making an investment decision, investors must rely on their own examination of us, the Bonds, the Shares and the terms of the offering, including the merits and risks involved. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on any of the Joint Bookrunners or any person affiliated with them in connection with its investigation of the accuracy of such information or its investment decision.

We have prepared audited consolidated financial statements as at and for the years ended December 31, 2007 and 2008, included elsewhere in this Offering Circular. These financial statements were prepared in conformity with HKFRS.

We have prepared this Offering Circular using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we", "us", "our" and words of similar import, we are referring to SRE Group Limited itself or to SRE Group Limited and its subsidiaries, as the context requires. When we use the term the "Company", we are referring to SRE Group Limited and when we use the term the "Group", we are referring to SRE Group Limited and its subsidiaries.

All references to "Hong Kong" are to the special administrative region of Hong Kong, all references to the "PRC" are references to the People's Republic of China, excluding, solely for the purpose of this Offering Circular, Taiwan, Hong Kong and Macau, and all references to the "U.S." and "United States" are references to the United States of America.

Unless otherwise specified or the context requires, references to "Hong Kong dollars," "HK dollars" or "HK$" are to the lawful currency of Hong Kong, references to "US dollars" or "US$" are to the lawful currency of the United States, references to "Renminbi" or "RMB" are to the lawful currency of the PRC, references to "S$" are to the lawful currency of Singapore, references to "HKFRS" are to Hong Kong Financial Reporting Standards and references to "sq.m." are to square metre and references to "mu" are to a form of PRC measurement of land, whereby one "mu" is approximately 666.67 sq.m.

Our accounting presentation currency is HK dollars, while our functional currency is RMB. The RMB and HK$ figures contained in this Offering Circular have been translated in accordance with the accounting policies of the Company. See our audited financial statements contained in this Offering Circular for further information on our accounting policies. For convenience only and unless otherwise noted, all translations from RMB into

US dollars in this Offering Circular were made at the rate of RMB6.8329 to US$1.00 and all translations from HK dollars into US dollars were made at the rate of HK$7.7500 to US$1.00, the noon buying rate in effect as at March 31, 2009 in The City of New York for cable transfers in Renminbi per US dollar and HK dollars per US dollar as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the US dollar, HK dollar or RMB amounts referred to in this Offering Circular could have been or could be converted into RMB, US dollars or HK dollars, as the case may be, at any particular rate or at all. For further information relating to exchange rates, see "Exchange Rates".

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

Market data and certain industry forecasts used throughout this Offering Circular have been obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of us or the Joint Bookrunners makes any representation as to the accuracy of that information.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes, and any accompanying offering circular supplement may include, forward-looking statements. All statements other than statements of historical facts included in this Offering Circular and any offering circular supplement regarding, among other things, the PRC's economy, fiscal condition, debt or prospects and our business may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", or similar terminology. Although we believe that the expectations reflected in these forward-looking statements are reasonable at this time, they may prove to be incorrect.

SUMMARY

This summary does not contain all the information that may be important to you in deciding whether to invest in the Bonds. You should read the entire Offering Circular, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision. Terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary.

We are a large property developer in China, focusing primarily on developing high quality, large-scale residential and commercial properties in Shanghai as well as cities in the Liaoning and Hainan provinces. We have historically focused on the development of middle to high-end residential and commercial properties. Furthermore, our focus has traditionally been property development in Shanghai. Since 2006, we have expanded our operations into Shenyang, the capital city of Liaoning Province, and Haikou, the capital city of Hainan Province, among others.

We currently derive the bulk of our revenue from the sale of properties that we have developed. In addition, we also derive a portion of our revenue from the operation of two hotels, the leasing of retail and office properties, the management of properties developed by us and certain infrastructure-related services that we perform for our property development projects. For the year ended December 31, 2008, 93.9%, 2.6% and 1.8% of our total revenue (prior to deduction of sales tax) was generated by the sale of development properties, hotel operation and property leasing, respectively.

Our residential projects are typically large-scale developments in prime locations within cities, and these projects typically incorporate a variety of comprehensive amenities and public facilities to meet the needs of a community. We usually operate and manage such amenities and public facilities. Due to the scale of our projects, we typically develop them in several phases over a number of years.

With over 16 years of experience in the PRC's property industry, our general business strategy is to pursue new projects that are consistent with the latest urban development planning policies in each of our regions of operation. We believe that our brand names, "Oasis Garden", "Rich Gate", "Albany", "Skyway" and "Lake Malaren", are well-known among property purchasers in Shanghai, Shenyang and Haikou. We have received a number of industry awards and prizes over the years. Our key brand name, "Oasis Garden", was awarded the 2007 PRC real estate brand leader by the Accountability Committee of the China Marketing Association, Shanghai Ecological Economics Association and Real Estate Research Center of Fudan University. Furthermore, we were ranked in the top 100 property management companies in the PRC in 2007 by China Real Estate Association and Chief Executive China, and we received the "Excellent Member in the Property Management Industry" award from the Shanghai Property Management Industry Association in the same year. Our Cedar Oasis Garden project was ranked as one of the most popular projects in 2008 by soufun.com, a popular real estate on-line search engine.

We own 14 property projects that either have been completed or are under development, of which ten property developments are located in Shanghai, three in Shenyang and one in Haikou. The total gross floor area of our 14 property development projects, if fully developed, is expected to amount to approximately 4.6 million sq.m. In addition, we currently own a 49.24% interest in China New Town Development Company Limited, or CNTD, a Singapore-listed company whose primary focus is the planning and development of large-scale new town projects located in the suburban areas at major cities in the PRC. CNTD's registered office is located at 8B Times Tower, 319-407 Jaffe Road, Wanchai, Hong Kong SAR, China.

The Shares of the Company have been listed on the main board of the Hong Kong Stock Exchange under stock code 1207 since 1999.

SUMMARY OF THE OFFERING

The following is a general summary of the offering of the Bonds. This summary is partly derived from and should be read in conjunction with the full text of the Terms and Conditions of the Bonds, the Trust Deed and the Agency Agreement relating to the Bonds. Capitalized terms used and not defined have the meaning given them to in the Terms and Conditions of the Bonds.

Issuer	SRE Group Limited.
Securities	RMB446,900,000 aggregate principal amount of US$ Settled 6% Convertible Bonds due 2014.
Issue Price	100% of principal amount.
Maturity Date	July 23, 2014.
Interest	The Bonds will accrue interest at 6% per annum. Interest will be payable semi-annually in arrear on January 23 and July 23 in each year, commencing on January 23, 2010.
Status of the Bonds	The Bonds will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior unsecured indebtedness, subject to mandatory provisions of applicable law and the negative pledge referred to below.
Negative Pledge	We and our subsidiaries may not create any security interest to secure any Relevant Indebtedness or any guarantee or indemnity in respect of any such Relevant Indebtedness unless (1) the security interest secures the Bonds equally and ratably, or (2) at our option we provide such other security interest as the Bondholders by Extraordinary Resolution may approve.
Conversion Right	You may convert the Bonds into our Shares at any time on or after September 2, 2009 up to the close of business on July 13, 2014, or if the Bonds have been called for redemption before the maturity date, then up to the close of business on the seventh business days prior to the redemption date. The initial conversion price will be HK$1.056 per Share, representing an initial conversion rate of 107,390.5304 Shares per RMB100,000 of Bonds. The conversion price will be subject to adjustment in certain events, including consolidation, subdivision or reclassification of our Shares, capitalisation of profits or reserves, excess distributions, rights issues, issues at less than current market price, modification of rights of conversion, and other specified events.

Final Redemption	Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the Terms and Conditions of the Bonds, we will redeem the Bonds at 100% of their principal amount plus accrued interest on July 23, 2014.
Redemption at Our Option	By giving not less than 30 nor more than 60 days' notice, we may redeem the Bonds at any time in whole but not in part at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount plus unpaid interest accrued to but excluding the date of redemption, if at least 90% in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.
Redemption for Taxation Reasons	We may redeem the Bonds in whole but not in part at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount plus unpaid interest accrued to but excluding the redemption date in the event certain changes occur affecting taxes of Bermuda, Hong Kong, the PRC or other relevant tax jurisdiction.
Redemption for Change of Control or Delisting	In the event of a change of control or a delisting of our Shares from the Hong Kong Stock Exchange as described in the terms and conditions of the Bonds, holders of the Bonds have the right to require us to redeem in whole but not in part their Bonds at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount plus unpaid interest accrued to but excluding the redemption date.
Bondholders' Put Option	By giving not more than 60 days' and not less than 30 days' prior notice, the Bondholders may require us to redeem all or some of their Bonds on July 23, 2012 at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount plus unpaid interest accrued to but excluding the redemption date.
Form and Denomination of the Bonds	The Bonds will be issued in registered form in denomination of RMB100,000 each or integral multiples thereof. The Bonds will be represented by a Global Certificate which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* ("Euroclear and Clearstream") and registered in the name of a nominee of the common depositary. The Bonds will be cleared through Euroclear and Clearstream. Each of Euroclear and Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its respective accountholders.

US Dollar Equivalent	All payments under the Bonds will be made in US dollar equivalent of the Renminbi amounts based on the spot rate determined in accordance with the Terms and Conditions of the Bonds.
Taxation	All payments of principal and interest made by us will be made free from any restriction or condition and will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of a Bermuda, Hong Kong, the PRC or other relevant tax jurisdiction or any authority thereof or therein, respectively, having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event and subject to certain exceptions, we will pay such additional amounts as will result in the receipt by the holders of the Bonds of the amounts which would have been received in the absence of such deduction or withholding.
Listing and Trading of the Bonds	Application has been made to the HKSE for the listing of the Bonds as selectively marketed securities on the HKSE. The Bonds will be traded on the HKSE in a minimum board lot size of US$15,000 for so long as the Bonds are listed on the HKSE.
Common Code and ISIN Number	Common Code Number: 043810189 ISIN Number: XS0438101890
Trustee	DB Trustees (Hong Kong) Limited
Principal Paying, Conversion and Transfer Agent	Deutsche Bank AG, Hong Kong Branch
Governing Law	The laws of England.
Stock Borrow	SRE Investment Holding Limited, our principal shareholder, has agreed to lend up to 150,000,000 of our Shares to affiliates of the Joint Bookrunners, to facilitate short sales and/or privately negotiated derivative transactions by which investors in the Bonds will hedge their investment in the Bonds. The closing of this offering is conditioned upon delivery of the borrowed Shares to affiliates of the Joint Bookrunners.

Use of Proceeds	The net proceeds of the issue of the Bonds after deduction of fees, commissions and expenses are expected to be approximately US$64 million (HK$496 million) and will be used by us to fund the Company's purchase of its US$200,000,000 8.625% Guaranteed Notes due 2013 pursuant to an Offer to Purchase and Consent Solicitation Statement dated June 8, 2009 (the "Bond Tender"), to fund the expenses payable by the Company in connection with the Bond Tender, and for general corporate purposes.
Lock-Up	From June 29, 2009 until 90 days after the closing date of this offering, SRE Group Limited, our controlling shareholder SRE Investment Holding Limited, and our executive Directors have agreed not to issue or sell any Shares or securities convertible or exchangeable into Shares, subject to certain exceptions. For more details of these lock-up obligations, see "Subscription and Sale – Lock-Up Agreements".
Risk Factors	Investment in the Bonds involves risks which are described below under the "Risk Factors" section of this Offering Circular.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information as at and for each of the years ended December 31, 2007 and 2008 set forth below is derived from our published audited consolidated financial statements for the years ended December 31, 2007 and 2008, which have been audited by Ernst & Young, Certified Public Accountants, and should be read in conjunction with our published audited consolidated financial statements for the years ended December 31, 2007 and 2008 and the notes thereto.

Our consolidated financial statements are prepared and presented in accordance with HKFRS.

	For the Year ended December 31,	
	2007	**2008**
	(Amounts expressed in thousands of HK$ unless otherwise stated)	
Revenue	3,350,446	3,739,865
Cost of sales	(2,713,929)	(2,844,987)
Gross profit	636,517	894,878
Selling and marketing costs	(112,345)	(75,685)
Administrative expenses	(173,746)	(251,350)
Other income	969	–
Other gains – net	1,302,738	1,411,217
Operating profit	1,654,133	1,979,060
Finance income	187,161	152,521
Finance costs	(140,105)	(11,063)
Finance income – net	47,056	141,458
Share of profits and losses of associates	(31,021)	(443,186)
Profit before tax	1,670,168	1,677,332
Tax	(641,960)	(893,471)
Profit for the year	1,028,208	783,861
Attributable to:		
Equity holders of the parent	1,019,040	247,936
Minority interests	9,168	535,925
	1,028,208	783,861
Dividends-proposed final	96,000	–
Earnings per share attributable to ordinary equity holders of the parent (expressed in Hong Kong cents per share)		
– Basic	42.95	8.91
– Diluted	41.81	8.64

	As at December 31,	
	2007	2008
	(Amounts expressed in thousands of HK$)	
ASSETS		
Non-current assets		
Property, plant and equipment	1,429,956	1,668,269
Investment properties	1,842,375	5,248,073
Prepaid land lease payments	1,108,527	885,914
Properties under development for long-term investment	880,124	–
Goodwill	422,627	447,495
Investments in subsidiaries	–	–
Advances to subsidiaries	–	–
Interests in associates	972,668	530,402
Deferred tax assets	–	19,811
Other non-current assets	63,159	279,042
	6,719,436	9,079,006
Current assets		
Prepaid land lease payments	5,554,483	6,654,264
Properties held or under development for sale	4,109,523	3,096,513
Inventories	24,673	30,885
Dividends receivable from subsidiaries	–	–
Amount due from associates	11,048	138,968
Prepayments and other current assets	78,891	66,404
Other receivables	1,106,464	642,145
Accounts receivable	54,817	18,165
Prepaid income tax	23,837	5,303
Cash and bank balances	1,939,359	1,575,476
	12,903,095	12,228,123
Total assets	19,622,531	21,307,129

	As at December 31,	
	2007	2008
	(Amounts expressed in thousands of HK$)	
EQUITY AND LIABILITIES		
EQUITY		
Issued capital and premium	3,956,327	4,003,101
Other reserves	555,442	1,019,625
Retained profits		
– Proposed final dividend	96,000	–
– Others	1,192,117	1,449,859
Equity attributable to equity holders of the parent	5,799,886	6,472,585
Minority interests	783,469	1,400,776
Total equity	6,583,355	7,873,361
LIABILITIES		
Non-current liabilities		
Interest-bearing bank and other borrowings	2,629,211	3,045,114
Guaranteed notes	1,540,928	1,537,947
Deferred tax liabilities	755,355	1,430,596
	4,925,494	6,013,657
Current liabilities		
Interest-bearing bank and other borrowings	1,164,570	1,495,640
Convertible bonds-host debts	35,363	62,008
Derivative financial liabilities	19,604	88,470
Advances received from the pre-sale of properties under development	2,392,775	1,171,996
Accounts payable	1,596,202	1,357,377
Other payables and accruals	2,072,911	2,241,817
Current income tax liabilities	831,880	983,491
Amounts due to related companies	377	19,312
	8,113,682	7,420,111
Total liabilities	13,039,176	13,433,768
Total equity and liabilities	19,622,531	21,307,129
Net current assets	4,789,413	4,808,012
Total assets less current liabilities	11,508,849	13,887,018

RECENT DEVELOPMENTS

Tender Offer and Consent Solicitation with respect to Guaranteed Notes

On June 9, 2009, the Company commenced (i) a tender offer to purchase for cash any and all of its US$200,000,000 Guaranteed Notes Due 2013 (the "Guaranteed Notes") and (ii) a solicitation of consents from holders of the Guaranteed Notes to amend certain terms of the trust deed governing the Guaranteed Notes (together, the "Tender Offer and Consent Solicitation").

Pursuant to the terms and conditions of the Tender Offer and Consent Solicitation, holders who validly tendered and did not withdraw their Guaranteed Notes on or prior to June 18, 2009, or the early consent deadline, will be eligible to receive the total consideration of US$800 for each US$1,000 principal amount of the Guaranteed Notes tendered, or the total consideration, which consists of (i) a purchase price of US$725, (ii) an early tender payment of US$62, and (iii) a consent payment of US$13, in each case for each US$1,000 principal amount of the Guaranteed Notes, plus accrued and unpaid interest thereon up to, but not including, the date of payment (the "Settlement Date").

Holders who validly tendered after the early consent deadline but on or before July 14, 2009, the expiration date of the Tender Offer and Consent Solicitation, will be eligible to receive the purchase price only, plus accrued and unpaid interest thereon up to, but not including, the Settlement Date. Holders who did not tender their Guaranteed Notes but validly delivered consents on or prior to the early consent deadline, and did not validly revoke their consents on or prior to the early consent deadline, will be eligible to receive the consent payment only.

While the Settlement Date on which the payments referred to above will be made is expected to occur on or about July 23, 2009, the consummation of the Tender Offer and Consent Solicitation, and payments referred to above, as applicable, is conditional upon, among other things, the Company's successful completion of one or more financing transactions involving the issuance and sale of equity securities and/or equity-linked securities to fund the payment payable under the Tender Offer and Consent Solicitation, including the top-up placement described below and this offering. As such, the Settlement Date will not occur until the successful completion of this offering.

As at the expiration of the Tender Offer and Consent Solicitation, consents from holders holding US$158,199,000 of the principal amount of the Guaranteed Notes, representing approximately 79.10% of the total aggregate principal amount of Guaranteed Notes outstanding, had been validly delivered and not been revoked; and US$128,539,000 of the principal amount of the Guaranteed Notes, representing approximately 64.27% of the total aggregate principal amount of Guaranteed Notes outstanding, had been validly tendered and not been withdrawn. The total amount payable by the Company under the Tender Offer and Consent Solicitation (exclusive of related expenses and inclusive of accrued interest on the Guaranteed Notes purchased pursuant to the Tender Offer, assuming payment is made on July 23, 2009) is approximately US$105,907,232.

Amendments to Conditions of the Guaranteed Notes

On July 17, 2009, the Company held a noteholders meeting in accordance with the trust deed governing the Guaranteed Notes to pass extraordinary resolutions that provided for:

(i) the elimination of substantially all of the restrictive covenants contained in the trust deed governing the Guaranteed Notes, including the limitations on (a) incurrence of indebtedness and preferred stock, (b) restricted payments, (c) dividends and other payment restrictions affecting restricted subsidiaries, (d) sales and issuance of capital stock in restricted subsidiaries, (e) issuance of guarantees by restricted subsidiaries, (f) transactions with shareholders and affiliates, (g) liens, (h) sale-leaseback transactions, (i) asset sales, (j) compliance with certain financial requirements in consolidation and merger, (k) business activities and (l) designation of restricted and unrestricted subsidiaries, and the elimination of certain events of defaults of the Guaranteed Notes, and

(ii) the elimination of (a) the requirement to make a change of control offer upon a triggering event; and (b) the event of default relating to the change of control offer, in each case from the trust deed governing the Guaranteed Notes.

The extraordinary resolutions are embodied in a supplemental trust deed, which will not be operative until the Settlement Date. As such, the provisions to be eliminated or modified in connection with the extraordinary resolutions will remain in effect until the Settlement Date, whereupon such amended provisions will be modified or eliminated as provided in the extraordinary resolutions.

Mandate to Issue Additional Shares

On July 13, 2009, the Company held a specific general meeting in which the Company's shareholders passed an ordinary resolution to approve a specific mandate to give the Company the power and authority to issue and allot up to an aggregate of 1,000,000,000 Shares (including the 586,776,239 Shares that may be issued pursuant to the general mandate that had been previously granted to the Company) in connection with the issuance and sale of equity or equity-linked securities, for the purpose of funding the amounts payable under the Tender Offer and Consent Solicitation.

Top-up Placement

On June 29, 2009, we and our controlling shareholder, SRE Investment Holding Limited, launched a top-up placement, which was completed on July 3, 2009. Through this top-up placement, SRE Investment Holding Limited placed, through the Joint Bookrunners as placement agents, 520,000,000 Shares that it held at a price of HK$0.96 per Share, while the Company allotted and issued to SRE Investment Holding Limited 520,000,000 Shares at the same price. The aggregate net proceeds from the top-up placement were approximately HK$482.7 million, which will be used primarily to fund the payment under the Tender Offer and Consent Solicitation.

Convertible Bonds

In December 2008, the Company issued convertible bonds in the aggregate principal amount of HK$165,000,000 to Well Fortune Investments Limited and Citic Capital China Access Fund Limited. As the date of this Offering Circular, all of these convertible bonds have been converted into Shares of the Company.

Business and Financial Update

We expect our revenue, and correspondingly our profit, for the six months ended June 30, 2009, to decrease as compared with the same period in 2008, primarily due to the global financial crisis and weaker operating environment in the China real estate market, which resulted in lower contracted sales in 2008 (and revenue for such contracted sales will only be recognized at a later point when title to the relevant properties is transferred). With respect to contracted sales that occurred in 2008 and the first six months of 2009 (but for which title to the properties has yet to be delivered), we expect to be able to recognize revenue arising from such contracted sales in the next 12 months. Furthermore, we expect that the following non-operating factors adversely impacted our results for the six months ended June 30, 2009:

- for the six months ended June 30, 2009, we will not have an extraordinary fair value gain on investment property whereas we recorded an extraordinary HK$4.3 billion fair value gain on an investment property (a shopping mall in Shenyang) in 2008; and
- the Company is expected to record a fair value loss in 2009 on the derivative component of the HK$165 million face value convertible bonds issued in December 2008 following a significant increase in the share price of the Company since the issue (as at the date of this Offering Circular, the Company has not quantified the amount of such fair value loss).

The information above is only based on our preliminary assessment of our consolidated management accounts and is not based on any figures or information which has been audited or reviewed by the Company's auditors, given that the results for the six months ended June 30, 2009 are not yet available and are subject to change. Furthermore, our results of performance for the six months ended June 30, 2009 will not be audited or reviewed by our independent auditors. As a result, they may be subject to change.

Prior to making any investment decision, investors should carefully consider all of the information in this Offering Circular, including the risks and uncertainties described below. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. Additional risks and uncertainties not presently known to us, or which we currently deem immaterial, may also have an adverse effect on an investment in the Bonds. If any of the events described below occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Bonds and investors could lose all or part of their investment.

Risks Relating to Us and Our Business

We are dependent on the performance of the property market in the PRC, particularly in Shanghai, Shenyang and Haikou.

Our business, prospects and results of operations depend on the performance of the PRC property market. Any housing market downturn in the PRC in general or in the regions where we have property developments in particular could adversely affect our business, financial condition and results of operations. Currently, most of our property development projects are located in Shanghai, with several projects under development in Shenyang and Haikou. We have ten property development projects located in Shanghai, three in Shenyang and one in Haikou. Substantially all of our revenue for each of the years ended December 31, 2007 and 2008 was derived from property development and sales in Shanghai. We expect that we will continue to be reliant on the performance of the property market in Shanghai, Shenyang and Haikou in the future. Accordingly, any adverse developments in the condition of the property market in these cities, such as a reduction in demand or downward movements in property prices, could adversely affect our business, financial condition and results of operations.

Continuing volatility in the PRC property market may adversely affect our business.

Historically, the property market in the PRC has been cyclical. The rapid expansion of the property market in certain major cities in the PRC in the early 1990s culminated in oversupply in the mid-1990s and contributed to a fall in property values and rentals in the second half of the decade. Since the late 1990s, private residential property prices and the number of residential property development projects have gradually increased in major cities in the PRC as a result of increasing demand, driven by domestic economic growth. In particular, prices of residential properties in certain major PRC cities have experienced rapid and significant growth. However, such growth is often coupled with volatility in market conditions and fluctuations in property prices. Property development and investment activities may not continue at past levels and we may not be able to benefit from any future growth in the property market in the PRC in general or in the regions where we operate in particular. In connection with the recent downturn in the global markets, the Chinese economy also faces challenges in the short to medium-term. Recent stimulus plans and other measures implemented by the PRC government may not work effectively or quickly enough to avert a severe downturn in economic activity. Continued turbulence in the international markets and prolonged declines in consumer spending, as well as any slowdown of economic growth in China, particularly in the regions where we operate, may reduce demand and depress prices for our products and services, which could in turn have a material adverse effect on our business, financial condition and results of operations. Demand for and prices of properties in the PRC are also directly affected by the macroeconomic control measures adopted by the PRC government from time to time. Restrictive measures adopted by the PRC government have resulted in a slow-down in property sales and a decline in property prices in many areas in the PRC since late 2007. See "– Risks Relating to the Property Sector in the PRC – The Restrictive measures adopted from time to time by the PRC government to curtail the overheating of the real estate market could slow down the industry's rate of growth."

Rapidly changing market conditions may adversely affect our business, financial condition and results of operations. Property development requires a significant capital outlay, which invariably reduces liquidity until proceeds from pre-sales, sales or leases are received. The size of the capital outlay and number of parties involved in a property development project mean that property development plans, once set, cannot easily be changed. As a result, property developers such as us may encounter difficulties when trying to adjust our plans or reallocate our resources to adapt to cyclical market conditions. The volatility of the PRC property market also impacts on the best timing for both the acquisition of sites and the sale of completed development properties. This volatility, combined with the lead time required for completion of projects as well as the sale of existing properties, means that our results from our property development activities may be susceptible to significant fluctuations from year to year. Furthermore, fluctuations in the PRC property market may adversely impact our balance sheet since we revalue our investment properties on an annual basis.

We face a number of development, construction and approval risks associated with the development of properties that may result in delays or lower than expected revenue.

There are a number of construction, financing, operating, regulatory and other risks associated with construction and property developments. Projects undertaken by us typically require substantial capital expenditures during the construction phase and usually take a period of over a year or multiple years, depending on their scales, before they become operational and generate revenue. The time taken and the costs involved in completing construction can be adversely affected by many factors, including shortages of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, disputes with sub-contractors, accidents, changes in governmental priorities and other unforeseen circumstances. Any of these circumstances could give rise to delays in the completion of construction and/or to cost overruns.

The real estate industry in the PRC is heavily regulated by the PRC government. To establish a property development subsidiary in China, we must go through various PRC governmental approval and filing processes and obtain the requisite approvals and licenses for our investment in such subsidiary and its property development and related business operations. Our property development subsidiaries must comply with a variety of legal and regulatory requirements, as well as the policies and procedures established by local authorities to implement such laws and regulations. To undertake and complete a property development, a property developer must obtain permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of the property development, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmations of completion and acceptance. Each approval is dependent on the satisfaction of a set of conditions. Delays in the process of obtaining, or a failure to obtain, the requisite licences, permits or approvals from government agencies or authorities may increase the cost or delay or prevent the commencement of a project, which could adversely affect our business, financial condition and results of operations. We may encounter problems in fulfilling the conditions for the approvals, and we may not be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the property market in general or the particular processes with respect to the granting of the approvals. Any such problem or failure may cause our developments not to proceed on schedule, and as a consequence our business, financial condition and results of operations may be adversely affected thereby.

Construction delays may result in delay of revenue recognition, loss of revenue, termination of contracts, compensation, or other liabilities. We outsource all of our construction work to third party contractors and rely on these contractors to complete our projects according to the agreed completion schedules and we do not exercise any direct control over materials sourcing or the construction schedule of our projects. See "– We rely on independent contractors to provide property development products and services". The failure to complete construction according to the required specifications may result in liabilities (including default payments to purchasers under pre-sale contracts), reduced efficiency and lower financial returns. There is no assurance that existing or future projects will be completed on time, or at all, and that they will generate satisfactory returns. See "– We are subject to legal and regulatory risks relating to pre-sale contracts".

Our PRC subsidiaries are subject to legal and business risks arising from potential deficiencies in their regulatory approvals.

The development of almost all of our projects is carried out by foreign invested PRC subsidiaries. With respect to any foreign investment project of US$100 million or above, the establishment and the increases in the registered capital of the relevant foreign invested company requires the approval of the PRC central government. One of our project companies, Shanghai Jinwu Real Estate Co., Ltd., or Jinwu, which is a foreign invested company and carried out the development of Central-Ring Center, had its total investment amount exceed US$109 million in 2006 after an increase of its share capital. Under the applicable PRC laws and regulations, we must submit the application for approval of such capital increase to the local authorities in Shanghai and the local authorities must in turn submit the application documents to the PRC central government for examination and approval. We have applied to the local authorities in accordance with the applicable laws and regulations. However, the local authorities may not have filed the relevant approval documents with the PRC central government and we have been unable to confirm if the PRC central government has granted the approval. If the PRC central government has not approved the capital increase or if it discovers any defect in the prior approval process of the capital increase by the local authorities in Shanghai, it could invalidate the approval of the project granted by the local authorities. In addition, we may encounter delays in obtaining government approvals to increase the registered capital or total investment of Jinwu. Any such delays or invalidation of approvals could materially and adversely affect our business, financial condition and results of operations.

If we fail to obtain or renew formal qualification certificates we may have to pay fines and would lose our business licenses.

Each property developer in the PRC must obtain a formal qualification to carry out a property development business in the PRC. According to the Provisions on Administration of Qualification Certificates of Property Developers (the "Qualification Certificate Regulation"), a newly established developer must first apply for a temporary qualification certificate which is initially valid for one year and can be renewed for a maximum of two further successive one-year periods. All property developer qualification certificates are subject to renewal on an annual basis under the Qualification Certificate Regulation. A qualification certificate will not be granted or renewed until and unless the property developer meets the various requirements set out in the Qualification Certificate Regulation. Each property developer in the PRC must also produce a valid qualification certificate when it applies for a pre-sale permit.

Our project company involved in the development of Long Island Oasis Garden held a "Grade 2" qualification certificate that has recently expired, and the project company is currently in the process of applying for a "Grade 1" qualification certificate. The qualification certificate of our project company involved in the development of Shenyang Rich Gate has also expired and it is now in the process of being renewed. Our project companies involved in the development of all our other projects currently hold temporary qualification certificates, or "Grade 3" qualification certificates, issued by the local government authorities. Under the Qualification Certificate Regulation, a property developer holding a qualification certificate of "Grade 2" or lower (including temporary qualification certificates) is not permitted to develop any property project with a gross floor area exceeding 250,000 sq.m. or to engage in primary development of land for sales. In order to develop such project, the property developer must obtain a "Grade 1" qualification certificate from the PRC central government. Although our project companies do not possess any "Grade 1" qualification certificate, we believe that their existing qualifications are sufficient to enable them to undertake such projects since our projects were developed and pre-sold in phases. Pre-sale permits were obtained from the relevant local government authorities for each of the phases for each project and the gross floor area permitted to be pre-sold under the pre-sale permit for each of the phases did not exceed a gross floor area of 250,000 sq.m. However, the total gross floor area of all the phases for each project exceeds 250,000 sq.m. and some of the approvals obtained during the development process of such projects were issued in respect of the entire project instead of individual phases. Notwithstanding that operations of our projects are principally regulated by the relevant local authorities, if any of the project companies is deemed by the central government authorities to have undertaken project development exceeding the relevant qualification specified in its qualification certificate, it may be given a deadline within which it has to obtain the proper qualification and it may also be subject to a penalty of between RMB50,000 and RMB100,000. Failure to obtain the proper qualification within the specified timeframe could also result in the revocation of the business licence of the relevant project company. If any of the project companies is unable to obtain or renew its qualification certificates, we may not be permitted to continue to engage in property development or to conduct any pre-sales for the relevant projects, which could materially and adversely affect our business, financial condition and results of operations.

We may not be able to acquire suitable land for future development, which will adversely affect our business.

While we believe that we have sufficient land reserves to fulfill our development requirements for the next three to five years, with our existing land bank expected to be depleted between 2013 and 2015, our business will be dependent in the future upon the identification and acquisition of future sites for development. We intend to source some of our future land requirements through joint ventures, the acquisition of other companies with existing high quality land banks and acquiring majority interests in existing associated companies. This will be dependent upon the availability of suitable joint venture or target companies, acceptable pricing terms and our funding and financing ability.

In addition, the supply of substantially all of the land in the PRC is controlled by state authorities, and our ability to acquire land for future development (and the acquisition costs of such land) will accordingly be affected by government policies in relation to land supply.

In May 2002, the PRC government introduced regulations requiring government departments and agencies to grant state-owned land use rights for residential or commercial property developments through public tender, auction or listing-for-sale. We will be required to go through these processes before we can acquire the land use rights to certain sites, which may result in higher land premiums than those we paid prior to 2002.

In addition, the PRC government in recent years has adopted a number of initiatives to control the growth of China's residential property sector and to promote the development of more affordable housing, which may affect land supply for median to high-end developers, such as us. For example:

- one of these initiatives requires the local governments, when approving new residential projects after June 1, 2006, to ensure that at least 70% of their annual land supply (in terms of estimated GFA) consists of units that are less than 90 sq.m. in size; and
- in an announcement made on May 30, 2006, the Ministry of Land and Resources has stated that land supply priority shall be given to ordinary commodity houses at middle to low prices and in medium to small sizes (including affordable housing).

On July 29, 2008, the People's Bank of China (the "PBOC") and China Banking Regulatory Commission (the "CBRC") jointly issued a notice that provides as follows:

- Land funded by a loan shall be obtained legally, in compliance with general land use planning, urban and rural planning, and the relevant industry planning. In the case of new land for development, such land must also fit into the annual land use schedule. It is forbidden to extend a loan to a project which does not comply with the relevant planning requirements, or to a project not in compliance with relevant PRC land laws and regulations, or to any project listed on the National Forbidden Land Use Projects List.
- It is forbidden to extend loans to real estate development enterprises to be used exclusively for the payment of land premiums. For land reserve loans in which a mortgage has been taken out, legal land use rights certification must be obtained. In such cases, the mortgage rate must not exceed 70% of the overall estimated value of the mortgaged property, and the terms of such loans must, in principle, not exceed two years. In addition, it is forbidden to extend loans to, or accept construction land which has been classified as idle by the land authorities for two years or more as collateral from real estate projects.

To avoid oversupply, the Shanghai municipal government has also, in recent years, exercised tighter control over the amount of land made available for development in Shanghai. These policy initiatives may limit our ability to acquire suitable land for our development, which may have a material adverse effect on our business, financial condition and results of operations.

We have not yet obtained formal land use right certificates in respect of all future phases of our projects. Any delay or failure by the authorities to issue such formal land use right certificates will affect our ability to deliver the relevant properties to our customers.

Under current PRC land grant policies, the relevant authorities generally will not issue the formal land use right certificates until the developer has (i) paid the land premium in full, (ii) completed the resettlement process and (iii) complied with all other land grant conditions. We have not yet obtained the formal land use right certificates for some of our properties under development or in respect of all the phases of the projects that are described in this Offering Circular as being developed by us.

Our project company responsible for the development of the Haikou Bund Centre project has entered into a land use right grant contract with the local land administration authority and was granted the land use rights with respect to a land slot of 227,272.63 sq.m. The total amount of land premium payable under this contract is RMB1,087,272,261.96. The local land administration authority has since orally agreed with the project company that the granted land slot shall be divided into multiple portions and the total land premium be paid in multiple installments so that the project company will obtain the corresponding land use rights certificate upon the payment of each installment. The project company has been in discussion with the local land administration authority regarding the execution of a supplemental contract to document such agreement. As at March 31, 2009, the project company had paid RMB217,454,452.40 of land premium and obtained a land certificate with respect to 46,666.65 sq. m. of the land slot.

Our project company responsible for the Albany Oasis Garden project has entered into a land use right grant contract with the relevant local land administration authority, under which it was granted the land use right with respect to a land slot of 143,970 sq. m. While the project company has paid up all land premium, since certain parts of the land are still subject to resettlement, the project company cannot apply for and obtain the land use right certificates with respect to such parts of the land until the resettlement is completed. As at the date of this Offering Circular, we held land use right certificates with respect to only 60,103 sq. m. of the land.

The land use rights in respect of the entire site area of our projects and the land that we may acquire in the future will not be formally vested in the relevant project companies until we have received the corresponding formal land use right certificates. We are required to pay land premium and obtain land use right certificates in the future in respect of the land on which such developments are located. There is no assurance that there will not be delays in the authorities' issuance of the formal land use right certificates in respect of these properties. Any failure or delay in obtaining the formal land use rights certificate will adversely affect our ability to deliver the properties to our customers and may have a material adverse effect on our business, financial condition and results of operations.

Our project company responsible for phase II of the Shenyang Rich Gate project has entered into a land use right grant contract with the relevant local land administration authority, under which it was granted the land use rights with respect to a land slot of 111885.6 sq. m. Since the project company has paid the land premium on a delayed basis, the project company is obligated to pay an accrued interest of RMB140 million by November 2009. As such, the project company cannot apply for and obtain the land use right certificates until the interest is fully paid.

We are exposed to general risks associated with investment properties.

We own certain investment properties for the purpose of generating steady and recurring income. However, investment properties are generally illiquid, limiting the ability of an owner or a developer to convert property assets into cash on a short notice or requiring a substantial reduction in the price that might otherwise be sought for such assets to ensure a quick sale. Such illiquidity may limit our ability to adjust our portfolio in response to changes in economic or other conditions. Moreover, we may face difficulties in securing timely and commercially favourable financing in asset-based lending transactions secured by real estate due to our illiquidity.

Property investment is also subject to risks incidental to the ownership and management of residential, office and retail properties, including, among other things, competition for tenants, changes in market rents, inability to renew leases or re-let space as existing leases expire, inability to collect rent from tenants due to bankruptcy or insolvency of tenants or otherwise, inability to dispose of major investment properties for the values at which they are recorded in the financial statements, increased operating costs and the need to renovate, repair and re-let space periodically and to pay the associated costs.

We are subject to the potential risks relating to the joint venture arrangements under which certain of our development projects are being developed.

We undertake certain of our property development business through joint venture companies formed to develop, own and/or operate properties in the PRC. In one of these joint ventures, namely the project company that developed the Rich Gate Seaview project, we do not have a majority interest and as such do not have control over its management. Although we generally seek to maintain a sufficient level of control over the projects through ownership of a controlling interest and/or responsibility for day-to-day management in order to impose established financial control management and supervisory techniques, property investment and development in the PRC may often involve the participation of local partners in the PRC, and joint ventures in the PRC may involve special risks or problems associated with joint venture partners. Examples of such risks and problems include disputes with joint venture partners in connection with the performance of their obligations under the relevant project or joint venture agreements, disputes as to the scope of each party's responsibilities under these agreements, financial difficulties encountered by a joint venture partner affecting its ability to perform its obligations under the joint venture agreements or other contracts with us, or conflicts between the policies or objectives adopted by the joint venture partners and those adopted by us. Any such problems could have a material adverse effect on our business, financial condition and results of operations.

We rely on independent contractors to provide property development products and services.

We engage independent third party contractors to provide significant property development services, including construction, piling and foundation, building and property fitting-out work, interior decoration and installation of air-conditioning units and elevators. Our projects are usually undertaken by independent contractors selected through invitation and contracts typically do not allow these independent contractors to sub-contract all or significant portions of the work unless our prior approval has been obtained. If the services rendered by any such independent contractor or any subcontractor are not timely or of acceptable quality, we may incur substantial costs to complete the projects and remedy any defects and our reputation could be significantly harmed. We are also exposed to the risk that a contractor may require additional funds in excess of the fixed cost to which they committed contractually and, consistent with common industry practice in China, we may have to bear such additional amounts. Furthermore, any contractor that experiences financial or other difficulties, including labor disputes with its employees, may be unable to carry out construction or related work, resulting in a delay in the completion of our development projects or resulting in additional costs. Any problems with our contractors may materially and adversely affect our financial condition, results of operations or reputation.

It is difficult to predict our future performance because our revenue fluctuates significantly from period to period due in part to our operating cycle and factors beyond our control.

Our results of operations have varied significantly in the past and may continue to fluctuate significantly from period to period in the future. The number of properties that we can develop or complete during any particular period is limited due to the substantial capital required for land acquisition, demolition and resettlement and construction, as well as limited land supplies and lengthy development periods before positive cash flows may be generated. In addition, we develop larger scale property developments and, as a result, we develop properties in multiple phases over the course of several years. Typically, as the overall development moves closer to completion, the sales prices of the properties in such larger scale property developments tend to increase because a more established residential community is offered to purchasers. In addition, seasonal variations have caused fluctuations in our revenues and profits from quarter to quarter. For example, the sales of properties in the first quarter of each year are typically higher due to the long vacation periods toward the end of the year. On the contrary, during the Chinese New Year holidays, winter weather conditions can hinder construction of development projects, especially in northern China. Our revenue, recognised upon the delivery of properties, in some periods of time during a year may be lower than in the other periods, and we will continue to experience significant fluctuations in revenue and profits. As a result, our results of operations fluctuate and the interim results do not proportionally reflect our annual results.

The valuations of our properties include significant estimates and judgments and are not predictions of the actual value expected to be achieved by us and may be subject to material changes.

The valuations of our investment properties are generally performed by our management at each reporting date and reviewed at least annually by an external valuer. As at December 31, 2008, the investment properties were valued by an independent professionally qualified valuer using discounted cash flow projections or an income approach. Such valuations of our properties are based on certain assumptions, which by their nature are subjective and uncertain. In addition, such valuations provide no assurance that the value of such properties would be realizable in cash or at all. There can be no assurance that we would be able to obtain the amounts set forth in the valuations if we attempted to sell such properties and any amounts we obtain may be materially lower than the amounts set forth in the valuations.

We are subject to uninsured risks.

Our insurance coverage on our properties under construction for third party liabilities and employer's liabilities does not cover losses due to events such as war, civil disorder, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters. Accordingly, we will not be covered or compensated for certain losses, damages and liabilities, which may in turn adversely affect our business, financial condition and results of operations. Our business may be interrupted or otherwise affected by natural disasters, such as floods, droughts and earthquakes, which could damage our property development projects. Our insurance policies do not cover loss of profits or any other consequential damage or loss incurred or suffered by us arising from interruption caused by natural disasters. The occurrence of natural disasters that interrupt or affect our business would have an adverse effect on our business, financial condition and results of operations.

Increasing competition in the property market in the PRC, particularly in Shanghai, Shenyang and Haikou, may adversely affect our profitability.

In recent years, a large number of property developers have begun to undertake property development and investment projects in Shanghai, Shenyang, Haikou and other areas in the PRC. Our major competitors include overseas property developers (including a number of leading Hong Kong and Singapore property developers) and local developers in the PRC, many of whom have greater financial and other capital resources, greater market share and/or greater name recognition than us. Intensified competition between property developers in the regions where we operate may result in oversupply of properties, price competition, a slowdown in the approval process for new property developments by the relevant government authorities, increased cost of land acquisition and a shortage of suitable land.

Furthermore, our property development operations face competition from both international and local operators with respect to factors such as location, facilities and supporting infrastructure, service and price. We compete with both local and international companies in capturing new business opportunities in the regions where we operate.

The PRC property market has also experienced significant consolidation in recent years, which has resulted in smaller property developers merging or otherwise combining their operations in order to enjoy economies of scale and enhance their competitiveness. Any further consolidation in the property sector in the PRC may intensify competition among property developers and we may have to compete with competitors, including those with increased financial and other resources.

We may not be able to compete successfully in the future against our existing or potential competitors and there is a risk that increased competition with respect to our activities may have a material adverse effect on our business, financial condition and results of operations.

We may not have adequate external funding resources to fund capital expenditures, to support the growth of our business, or to refinance existing debts.

Property development projects are typically capital intensive and may require high levels of debt financing. Our available financial resources for implementing these projects, based on our internal studies and estimates, may be inadequate and the project development may face cost overruns. The actual amount and timing of future capital requirements may differ from our estimates. If we decide to meet these funding requirements through debt financing, our interest obligations will increase and we may be subject to additional restrictive covenants, including restrictions on change in shareholding, constitution of the Board of Directors and management of the businesses. In addition, we intend to retain an increasing proportion of the properties we develop in the future as investment properties, and as a result, our cash flows from operations may decrease. In addition, our ability to raise funds, either through equity or debt, is limited by certain restrictions imposed under PRC laws and the laws of the relevant foreign jurisdiction. We may not be able to raise adequate capital in a timely manner and on acceptable terms or at all, particularly when the property market is depressed. Our failure to obtain adequate financing would result in a delay or abandonment of the existing and future projects.

The PBOC issued a circular on June 5, 2003 to specify the requirements for banks providing loans for the purposes of real estate development. These requirements include:

- that property loans by commercial banks to real estate development enterprises may be granted only as real estate development loans and it is strictly forbidden to extend such loans as current capital loans for real estate development projects or other purposes. No lending of any type shall be granted to enterprises which have not obtained the relevant land use right certificates, construction land permits, construction planning permit and construction work permits; and

- that commercial banks may not grant loans to property developers to finance land premium payments.

In addition, the PBOC increased the reserve requirement ratio for commercial banks several times from 8% in July 2006 to 15% in January 2008. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. The increases in the bank reserve requirement ratio may negatively impact the amount of funds available to lend to businesses, including us, by commercial banks in China. Further increases in lending rates or reserve requirement ratios may adversely affect our business, financial condition and results of operations.

The initiatives outlined above may limit our flexibility and ability to use bank loans to finance our property developments and therefore may require us to maintain a relatively high level of internally-sourced cash. As a result, we may not have adequate resources to fund land acquisitions or property developments, or to service our financing obligations, and our business and financial condition may be materially adversely affected.

We are subject to legal and regulatory risks relating to pre-sale contracts.

There are risks relating to the pre-sale of properties, which is widely adopted in the PRC. For example, we may fail to complete a project which has been fully or partially pre-sold. In such circumstances, we may find ourselves liable to purchasers of pre-sold units for losses suffered by them. These losses may exceed the purchase price paid in respect of the pre-sold units. In addition, if a pre-sold project is not completed on time, the purchasers of pre-sold units may be entitled to compensation for late delivery. If the delay extends beyond a certain period, the purchasers may even be entitled to terminate the pre-sale contracts and claim damages. Also, proceeds from pre-sale of our properties are an important source of financing for our property developments. Consequently, any restriction on our ability to pre-sell our properties, including any increase in the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time period required for recovery of our capital outlay and would result in our need to seek alternative means to finance the various stages of our developments. This, in turn, could have an adverse effect on our cashflow, business and financial position.

On August 5, 2005, the PBOC recommended in a report that the practice of pre-selling uncompleted properties be discontinued, on the ground that it creates significant market risks and generates transactional irregularities. At the "two meetings" (the plenary session of the National People's Congress and that of the Chinese People's Political Consultative Conference) held in March 2006, a total of 33 delegates to the National People Congress, including Bai Hexiang, head of the Nanning Central Sub-Branch of the PBOC put forward a motion to abolish the system for sale of forward delivery housing. In May 2006, Cheng Jiansheng, head of the Real Estate Finance Division of the Financial Market Department of the PBOC published an article pointing out that the way to perfect the system for commodity housing presale of China is to abolish the financing function of presale. On July 24, 2007, an economy research group under the National Development and Reforming Commission ("NDRC") proposed to change the existing system for sale of forward delivery housing into one for sale of completed housing. While the recommendation has not been adopted by any PRC governmental authority and has no mandatory effect, the PRC governmental authority may ban or impose material limitations on the practice of pre-selling of uncompleted properties.

Our sales and pre-sales will be adversely affected if mortgage financing becomes more costly or otherwise less attractive.

A majority of purchasers of our residential properties rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely impacting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Under applicable law, purchasers of homes equal to or smaller than 90 sq.m. are required to pay a minimum of 20% of the purchase price as down payment. If the purchased home is larger than 90 sq.m., a minimum of 30% of the purchase price as down payment is required. Furthermore, on September 27, 2007, the PBOC and the CBRC increased the minimum down payment for purchasers of second homes from 30% to 40% of the purchase price regardless of the size of the second home, if the purchaser obtained his or her first home through a mortgage. The CBRC further clarified in a notice in December 2007 that whether a property is considered a "second home" shall refer to the properties owned by the families of mortgage applicants rather than the applicant alone. Moreover, the mortgage loan rates for subsequent mortgages are required to be not less than 1.1 times the corresponding PBOC benchmark lending rates. Monthly mortgage payments are limited to 50% of an individual borrower's monthly income. In addition, the minimum down payment for commercial properties has been increased from 40% to 50% of their purchase prices. If the availability or attractiveness of mortgage financing is further reduced or limited, many of our prospective customers may not be able to purchase our properties. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We guarantee the mortgages provided to our purchasers and, consequently, we are liable to the mortgagee banks if our purchasers default on their mortgage payments.

We arranged for various banks to provide mortgage services to the purchasers of our properties per the requirement of certain domestic banks. The majority of these guarantees are short-term guarantees which are released upon the earlier of the issuance of the individual property ownership certificate to the owner of the property or the certificate of other rights of property to the mortgage bank by the relevant housing administration department, which generally takes place within three months after we deliver the relevant property to the purchasers, or the full settlement of the mortgaged loans by the purchasers. We did not conduct independent credit checks on our customers but rely instead on the credit checks conducted by the mortgage banks. As at December 31, 2008, the outstanding guarantees over the mortgage loans of our customers amounted to approximately HK$15,000,000. If our purchaser default rates increase and the guarantees are called upon, our business, financial condition and results of operations could be adversely affected.

If we fail to develop land in accordance with the land grant contract, we may have to pay fines and forfeit the land.

Under PRC laws, where a developer fails to develop land according to the terms of the land grant contract (including those relating to payment of fees, land use or the time for commencement and completion of the development of the land), the relevant government authorities may warn or impose a penalty on the developer or repossess the land granted to the developer.

If we fail to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee on the land of up to 20.0% of the land premium. If we fail to commence development for more than two years from the commencement date stipulated in the land grant contract, the land is subject to forfeiture to the PRC government unless the delay in development is caused by government actions, force majeure or necessary preparatory work. In a notice promulgated by the State Council on January 3, 2008, this policy was reinforced. This notice states, among other things, that (i) policies in relation to the forfeiture of land use rights without compensation for land which has remained idle for more than two years shall be strictly implemented; (ii) if any land remains idle for one year, an idle land fee of 20% of the relevant land premium shall be levied; (iii) the prohibition of land supply for villa projects shall continue; (iv) the Ministry of Land and Resources and other authorities are required to research and commence the drafting of implementation rules concerning the levy of land appreciation fees on idle land; (v) in relation to the supply of residential land, planning conditions such as plot ratio limits and the number and type of flats that can be constructed shall be taken into account in land grant contracts and allocation decisions to ensure that at least 70% of the total land grant for residential development will consist of low rental housing, economy housing, limited pricing housing and units of less than 90 sq.m. in size; and (vi) financial institutions are required to exercise caution when approving financing for any property developer who, after one year from the commencement date stipulated in the land grant contract, fails to complete at least one-third of the development of their project or provide at least 25% of the total investment in the project.

Moreover, according to a notice issued by the Ministry of Land and Resources on September 30, 2007, even if the commencement of the land development is in compliance with the land grant contract, if (i) the developed GFA on the land is less than one-third of the total GFA of the project under the land grant contract or the total capital invested is less than one-fourth of the total estimated investment of the project under the land grant contract and (ii) there has been a suspension of the development of the land for over one year without government approval, the land will be treated as idle land and the property developer may be restricted or prevented from participating in future land bidding. This notice also calls for control over supply of large land parcels and states that the development period of an individual parcel of land in principal should not exceed three years. If we are required to forfeit land, to pay idle land fee, or to pay appreciation land premium, we will not be able to continue our property development on the forfeited land or recover the costs incurred for the initial acquisition of the forfeited land or recover development costs and other costs incurred up to the date of forfeiture, and our business, financial condition and results of operations may be adversely affected.

The construction of certain of our development projects, including the Central-Ring Centre Hotel and Qinhai Oasis Garden, have not commenced or been completed in accordance with the schedules provided for under the relevant land use right grant contracts, and we have applied to extend the commencement or completion deadlines for these projects. Pursuant to the relevant land use right grant contracts and relevant PRC laws, in the event that we fail to obtain approval for such extensions, the relevant authority may withdraw the granted land use rights and repossess the land, and we may also be subject to fines in an amount equal to approximately 20% of the land premium.

The land use of some of our property developments may differ from the original land use and the total gross floor area of our property developments may exceed the original authorised area.

When the PRC government grants land use rights for a piece of land, it will specify in the land grant contract the use of the land and the total gross floor area that the developer may develop on this land. However, the actual land use may differ from the original land use and the actual gross floor area constructed may exceed the total gross floor area authorised in the land grant contract due to factors such as subsequent planning and design adjustments. The adjusted land use and the amount of gross floor area in excess of the authorised amount are subject to approval when the relevant authorities inspect the properties after completion and the developer may be required to pay additional land premium in respect of the adjusted land use and excess gross floor area. The methodology for calculating the additional land premium is generally the same as the original land grant contract. We cannot assure you that we will not be subject to any penalty as a result of such deviation in the future.

Our branding and marketing strategy and our revenue could be adversely affected if owners of the projects that we have developed stop using us to provide property management services.

We provide property management services to the owners and users of the projects that we have developed. These services include rental agency, security management, maintenance, clubhouse operations, gardening and landscaping services. We believe that property management is an integral part of our business and is very important to the successful marketing and promotion of our property developments. Under PRC law, owners may engage or dismiss a property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the building. If owners of the projects that we have developed stop using us to provide property management services, our branding and marketing strategy and our revenue from the property management business will be adversely affected.

Increases of price of raw materials will increase our expenses and hurt our margins.

Our business and results of operations are significantly influenced by the market prices for our raw materials, particularly cement and steel, which are subject to domestic and international supply and demand, import/export tariffs and duties, domestic duties and various other factors beyond our control. In recent years, there have been significant fluctuations in the prices of these raw materials. We manage the cost of outsourced construction work through a process of tenders which, among other things, takes into account procurement of supplies of principal construction materials such as steel and cement of our property development projects at fixed prices. In line with industry practice, if there is a significant price fluctuation, depending on the specific terms of each contract, we may be required to re-negotiate, top-up or refund, depending on the price movement, construction contracts. Additionally, if our contractors fail to perform under their contracts, we might be required to pay more to contractors under replacement contracts. Our profit margin is sensitive to increases in the market prices for construction materials and our project margins will be adversely affected if we are not able to pass all of the increased costs onto our customers.

Changes in government regulations on the resettlement of original inhabitants may increase the costs of property development.

The sites of Qinhai Oasis Garden, Albany Oasis Garden and Shenyang Albany are subject to resettlement requirements. We may acquire land in the future which is also subject to such requirements. In accordance with applicable law and local regulations, a property developer is required to compensate the owners or residents of those existing buildings on the land to be developed for relocation and resettlement. The amount of the resettlement compensation payable by the property developer to affected residents should be calculated in accordance with pre-set formulae provided by the relevant local authorities. In general, the minimum compensation unit price, which means the average market unit price of housing in the same area regularly announced by the district or county government, the appraised unit price of the building to be demolished, the price compensation index, which should not be lower than 20% and which should be decided by the district or county government and the construction area of the existing buildings should all be taken into account. If any resident is dissatisfied with the resulting resettlement compensation amount and refuses to move, such disputes may substantially increase the resettlement costs paid by the property developer and delay the proposed construction process. Moreover, if a large number of residents refuse to accept the resettlement arrangements, the property developer may not be able or willing to proceed with the proposed development notwithstanding the fact that approval has been obtained for development of that site. If the PRC government changes the resettlement compensation formulae, the construction costs may increase, thereby negatively affecting our results of operations.

Our controlling shareholder may cause us to take actions not in the interests of us or the Bondholders.

As at July 9, 2009, Mr Shi Jian ("Mr Shi"), our Chairman, and his affiliates controlled 34.70% of our issued share capital through a shareholding of approximately 63% in SRE Investment Holding Limited. Accordingly, Mr Shi has, and will continue to have, the ability to exercise a significant influence over our business and may cause us to take actions that are not in, or may conflict with, our interests and/or the interests of some or all of our creditors including the Bondholders. These include matters relating to our management and policies, the outcome of our corporate actions and the election of Directors.

We depend on our senior management team and experienced employees in all aspects of our business; our business and operations will be disrupted if we lose their services.

Our success is built substantially upon the technical expertise and in-depth knowledge of the property development industry of our executive Directors and certain other key technical and management personnel. We do not carry key person insurance and we may not be able to retain these executives and employees. If any of them ceases to continue in their present positions, or fails to perform their obligations under their service agreements, we may not be able to replace them easily and our business may be disrupted, leading to a material adverse impact on our business.

Our growth and success will depend to a large extent on our ability to retain or recruit suitably qualified individuals to strengthen our management, operational and research teams, and we may not be able to attract and retain the key personnel that we need to achieve our business objectives.

We may not be able to successfully manage our growth.

We have been expanding our operations in recent years. We began expanding our project development activities to Shenyang in 2006 and to Haikou in 2008. As we continue to grow, we must continue to improve our managerial, technical and operational knowledge and allocation of resources, and to implement an effective management information system. To effectively manage our expanded operations, especially projects outside Shanghai, we need to recruit, as well as strengthen internal training for, managerial, accounting, internal audit, engineering, technical, sales and other staff. As at December 31, 2006, 2007 and 2008, we had 1,330, 1,940 and 2,716 full-time employees, respectively. We expect to continue to hire more employees to support our further expansion to fund our ongoing operations and our future growth, we need to have sufficient internal sources of liquidity and access to additional financing from external sources. Further, we will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. We will need to strengthen our internal control and compliance functions to ensure that we comply with our legal and contractual obligations and reduce our operational and compliance risks. We may experience capital constraints, construction delays, operational difficulties at new operational locations or difficulties in expanding existing business and operations and training an increasing number of personnel. Our expansion plans may also adversely affect our existing operations and thereby have a material adverse effect on our business, financial condition, results of operations.

Non-compliance of environmental laws in the PRC may adversely affect our business.

Our business is subject to PRC laws and regulations relating to environmental and safety matters. The discharge of waste and pollutants into the environment may give rise to liabilities that may require us to incur costs to remedy. In addition, any new environmental laws may materially increase our operating and other expenses.

An outbreak of avian influenza or H1N1 influenza A or a recurrence of SARS or any other similar epidemic may adversely affect our operating results

Our business could be adversely affected by avian influenza, H1N1 influenza A, SARS or another epidemic or outbreak of disease. China reported a number of cases of SARS in 2003. Recently, certain countries have encountered incidents of avian influenza and H1N1 influenza A. According to health authorities, this disease, which is spread through poultry populations, is capable of being transmitted to humans and could be fatal. If any of our employees are identified as a possible source of avian influenza, H1N1 influenza A or any other epidemic or serious disease, we may be required to quarantine the employees, as well as others that have come into contact with those employees. As a result, our business, financial condition and results of operations could be adversely affected. Even if we are not directly affected by the epidemic, an outbreak of an epidemic or serious disease, whether inside or outside China, could disrupt business activities and/or restrict the level of economic activities generally, which could also adversely affect our business, financial condition and results of operations.

The loss of key tenants or a downturn in the businesses of any of our tenants could have an adverse effect on our results of operations.

We derive a portion of our revenue from the leasing of retail and office properties. Any of our key tenants may experience a downturn in their business, which may weaken their financial condition and result in their failure to make timely rental payments or they may default on its tenancy agreements with us. Similarly, other tenants may also experience a downturn in their business or face other types of financial distress, such as bankruptcy or insolvency, and therefore also be unable to make timely rental payments. Our claims for unpaid rent against a bankrupt tenant may not be paid in full. If any tenant defaults or fails to make timely rental payments, we may experience delays in enforcing our rights as a landlord and incur time and expense relating to any eviction proceedings, which may be substantial in the case of key tenants. During any eviction we may be unable to re-let the space.

Further, if our key tenants decide not to renew their tenancies or terminate early, replacement tenants on satisfactory terms may not be found in a timely manner or at all. Even if key tenants decide to renew or lease new space, the terms of renewals or new tenancies, including the cost of required renovations or concessions to tenants, may be less favourable to us than current lease terms. As a result, our results of operations could be adversely affected.

Certain ancillary facilities may not continue to provide services to the owners or users of our property developments.

The ancillary facilities in the surrounding areas at our residential communities enhance the value of our properties by improving the overall quality and value of the surrounding areas, thus offering a better living environment to the owners and users of our properties. However, we do not operate or manage some of the ancillary facilities, such as schools and hospitals. If these facilities cease to operate in our residential communities, our properties may become less attractive and competitive and this may adversely affect the value of our properties.

We rely on professional hotel management companies to operate our hotels and are subject to risks relating to such arrangement.

We currently own two hotels, Pullman Shanghai Skyway Hotel and Lexington Shenyang Rich Gate Hotel. Each of them is managed and operated by a professional hotel management company under an operation agreement that has a term of ten years or more.

We do not have extensive experience in the operation or management of hotels. Currently we rely on the hotel management companies referred to above. If we fail to renew our hotel operation agreements with these companies on equally favorable terms, or at all, after the current arrangements expire or if we fail to engage professional hotel management companies with similar experiences or reputations, our business may be materially and adversely affected. Furthermore, we could face reputational and financial risks out of our control if these hotels are mismanaged or do not meet the expectations of customers.

As we rely on hotel management companies to manage these two hotels, we may not be able to identify or resolve issues that arise in relation to the hotels and this may have a material adverse effect on our reputation, business, financial condition and results of operations.

If our project companies do not deliver individual property ownership certificates to our purchasers on time, we may be liable to our purchasers for damages.

Under PRC law, property developers are required to deliver to purchasers the relevant individual property ownership certificates within 90 days after delivery of the property or within a time frame set out in the relevant sale agreement. Our project companies generally specify a deadline for the delivery of the individual property ownership certificates in the sale agreements to allow sufficient time for the application and approval processes. Our project companies are required to submit governmental approvals in connection with their property developments, including land use rights documents and planning and construction permits, to the local bureau of land resources and housing administration within three months after the receipt of the completion and acceptance certificate for the relevant properties and apply for the general property ownership certificate in respect of these properties. The relevant project company is then required to submit, within 60 days after delivery of the properties, the relevant property sale agreements, identification documents of the purchasers, proof of payment of deed tax, together with the general property ownership certificate, for the bureau's review and the issuance of the individual property ownership certificates in respect of the properties purchased by the purchasers. Delays by the various administrative authorities in reviewing the application and granting approval and certain other factors may affect timely delivery of the general and individual property ownership certificates. Therefore, our project companies may not be able to deliver individual property ownership certificates to purchasers on time as a result of delays in the administrative approval processes or for any other reason beyond our control, which may result in the project companies having to pay default payments and, in the case of a prolonged delay, the purchaser terminating the sale agreement. If our project companies become liable to a significant number of purchasers for late delivery of the individual property ownership certificates, our business and results of operations may be adversely affected.

We may be involved in legal and other disputes arising out of our operations from time to time and may face significant liabilities as a result.

We may be involved in disputes with various parties involved in the development and the sale of our properties, including contractors, suppliers, construction workers, partners and purchasers. These disputes may lead to legal or other proceedings and may result in substantial costs and diversion of resources and management's attention. We have in the past been involved in disputes with our customers with respect to quality of our properties. In addition, most of our projects consist of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects are perceived to be inconsistent with our representations and warranties made to such earlier purchasers. Further, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavourable decrees that result in pecuniary liabilities and cause delays to our property developments. Any disputes with parties involved in the development and sale of our properties may have a material adverse effect on our business, financial condition and results of operations or have a negative impact on our reputation or our brand names.

The relevant PRC tax authorities may challenge the basis on which we calculate our Land Appreciation Tax ("LAT") obligations.

Under PRC tax laws and regulations, our PRC subsidiaries are subject to LAT, which is collected by local tax authorities. All income from the sale or transfer of land use rights relating to state-owned land, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation in value as defined by the relevant tax laws. Certain exemptions are available for the sale of ordinary standard residential houses if the appreciation value does not exceed 20% of the total deductible items as defined in the relevant tax laws. Sales of commercial properties are not eligible for such exemption. We estimate and make provision for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations, but we only pay a portion of such provision each year as required by the local tax authorities. For the year ended December 31, 2008, and the three months ended March 31, 2009, we made a provision for LAT in the amount of HK$122.988 million and HK$0.511million, respectively.

For the same periods, we made LAT payments in the amount of HK$40.635 million and HK$3.455 million, respectively. If the tax authorities believe a higher LAT should be paid, our net profits after tax will be adversely affected.

Further, on December 28, 2006, the State Administration of Taxation issued a notice which requires that:

- final settlement of LAT will be conducted on a project-by-project basis. For multi-phase projects, each phase will be required to undergo a land appreciation tax clearance and settlement process;
- the appreciated value of ordinary residential properties and non-ordinary residential properties contained within a project shall be calculated separately; and
- real estate developers must conduct final settlement if one of the following conditions is satisfied:

  the project is completed and has been sold entirely;

  the project is transferred as a whole before the completion of the construction; or

  only land-use rights are transferred.

This notice also stipulates that the PRC tax authorities may require the real estate developer to conduct final LAT settlement if one of the following conditions is met:

- for completed projects, the area sold exceeds 85% of the total saleable area or, though less than 85%, the rest of the saleable area has already been rented or is being self-used;
- the project has held a sale/pre-sale license for at least three years but has not been sold entirely;
- the taxpayer has applied for tax de-registration but the LAT settlement has not been conducted; or
- other situations set forth by the provincial PRC tax authorities.

Local provincial tax authorities can formulate their own implementation rules according to the notice and local situations and there are uncertainties how they will enforce this notice. If the implementation rules promulgated in the cities in which our projects are located require us to settle all the unpaid LAT, our cash flow may be adversely affected.

Our income and the income of our non-PRC subsidiaries may be subject to PRC income tax.

Under the PRC Enterprise Income Tax Law (the "New EIT Law") which became effective on January 1, 2008, companies incorporated outside China may be considered PRC resident enterprises for income tax purposes if their "de facto" management bodies are located in China. As a result, such non-PRC companies may be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. Under the implementation rules of the New EIT Law, "de facto management bodies" is defined as the bodies that have material and overall management and control over the business, personnel, accounts and properties of the enterprise. Furthermore, under the New EIT Law, dividends payable by a foreign investment enterprise to its foreign non-resident enterprise investors that were derived from income after January 1, 2008 are subject to a 10% withholding tax, unless such foreign investor's jurisdiction of incorporation has signed a tax treaty or arrangement for the avoidance of double taxation and the prevention of tax evasion with China that provides for a reduced rate of withholding tax. Bermuda, where we are incorporated, does not have such a tax treaty with the PRC. If we or any of our non-PRC subsidiaries are deemed a PRC resident enterprise, we or such non-PRC subsidiaries will be subject to PRC enterprise income tax at the rate of 25% on our worldwide income, including dividend income from our subsidiaries, which in turn may adversely affect our ability to fulfill our payment obligations under the Bonds. In addition, if we are considered a PRC resident enterprise, we may be required under the new EIT Law to withhold PRC income tax on our dividends and interest payments payable to non-PRC holders of our Bonds and Shares. See "Taxation".

The PRC government control foreign investment in the real estate sector.

The PRC government has imposed restrictions on foreign investment in the real estate sector by, among other things, increasing the capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of real estate properties in China by foreign persons. On May 23, 2007, MOFCOM and SAFE jointly issued a notice which, among other things, provides that:

- foreign investment in the real estate sector in the PRC relating to high-end properties should be strictly controlled;
- prior to obtaining approval for the establishment of foreign invested real estate enterprises, either (i) both the land use right certificates and housing title certificates should be obtained, or (ii) contracts for obtaining land use rights or housing titles should be entered into;
- foreign invested real estate enterprises approved by local approval authorities shall immediately register with the MOFCOM through a filing made by the local approval authorities; and
- foreign exchange administration authorities and banks authorised to conduct foreign exchange business should not effect foreign exchange settlements of capital account items for those foreign invested real estate enterprises which have not completed their filings with MOFCOM or fail to pass the annual inspections.

The NDRC, on July 8, 2008, issued a circular restating that projects in the encouraged category and permitted category with a total investment (including capital increase) of US$100 million or above and projects in the restricted category with a total investment of US$50 million or above shall be verified and approved by the NDRC while projects in the encouraged category and permitted category with a total investment of less than US$100 million and projects in the restricted category with a total investment of less than US$50 million shall be verified and approved by local development and reform departments. Such Circular expands its application to reinvestments made by foreign-invested enterprises.

The MOFCOM issued a circular effective July 1, 2008 that stipulates, among other things:

(i) The MOFCOM authorizes commercial authorities at provincial level to check and examine the filing materials for foreign investment in real estate sector. After properly approving the establishment, capital increase, equity transfer or acquisitions of foreign-invested property enterprises, the local commercial authorities shall file relevant materials to commercial authorities at provincial level for examinations.

(ii) Commercial authorities at provincial level shall comply with the following requirements to check the legality, authenticity and accuracy of relevant materials pursuant to the Opinion on Regulating the Admittance and Administration of Foreign Capital in the Property Market, the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector and other relevant regulations:

- The land use rights, housing ownership, land grant contracts or housing purchase agreements provided by the foreign-invested property enterprises have been legally obtained, real and effective;
- The establishment or capital increase of foreign-invested property enterprises shall follow the principle of "commerce existence" and the foreign investment (including capital increase) is limited to the approved single property project;
- The registered capital of a foreign-invested property enterprise shall be no less than 50% of its total investment amount;
- Materials provided by the foreign-invested property enterprise shall evidence that its enterprise foreign shareholders are not established by domestic companies or individuals, and the companies shall not be related parties or controlled by the same entity or individual;
- Parties to foreign-invested property enterprises should not in any way guarantee a fixed investment return; and
- The foreign-invested property enterprise shall make its investment according to the project progress in phases, and it shall provide its use of funds and the commitments to invest in phases.

(iii) Commercial authorities at provincial level shall, together with other provincial authorities check and examine the above-mentioned filing materials pursuant to foreign investment laws and regulations and relevant property macro control measures, and shall fill the "foreign-invested property sector filing form" and file it to the MOFCOM affixing official seals of the provincial people's government general office and the provincial commercial authorities.

(iv) The MOFCOM in principle will conduct spot checks on five to ten foreign-invested property enterprises together with other departments under the State Council on a quarterly and random basis.

(v) The MOFCOM may inform the SAFE or its branches to cancel the registration of foreign exchange and foreign investment statistics of the foreign-invested property enterprise verified not in compliance with the existing PRC laws and regulations.

Restrictions imposed by the PRC government on foreign investment in the real estate sector may affect our ability to make further investments in our PRC subsidiaries and as a result may limit our business growth and have an adverse effect on our business, results of operations and financial condition.

Risks Relating to the Property Sector in the PRC

The real estate industry in the PRC is still at an early stage, and the property market and related infrastructure and mechanisms have not been fully developed.

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private residential property in the PRC, including the regions in which we operate, has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. It is extremely difficult to predict whether or by how much and when demand will develop, as many social, political, economic, legal and other factors, most of which are beyond our control, may affect the development of the market. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of a liquid secondary market for residential real estate may discourage investors from acquiring new properties. The limited amount of property mortgage financing available to PRC individuals, compounded by the lack of security of legal title and enforceability of property rights, may further inhibit demand for residential developments.

In addition, risk of property over-supply is increasing in parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, property prices may fall significantly and our revenue and profitability will be adversely affected.

The restrictive measures adopted from time to time by the PRC government to curtail the overheating of the real estate market could slow down the industry's rate of growth.

In response to concerns over the scale of the increase in property investment and the overheating of the real estate sector in the PRC over the past few years, the PRC government has introduced policies to restrict future development, including:

- suspending or restricting land grants and development approvals for villas and larger-sized units;
- tightening lending of bank loans to property developers and purchasers of developed properties and increasing the reserve requirements for commercial banks;
- imposing or increasing taxes on short-term gains from second-hand property sales; and
- restricting foreign investment in the property sector by, among other things, increasing registered capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of real estate properties in China by foreign persons.

The PRC government's measures to control the industry's rate of growth could limit our access to capital resources, reduce market demand and increase our operating costs. The PRC government may adopt additional and more stringent measures in the future, which could further slow the development of the industry and adversely affect our business operations.

Risks Relating to the PRC

We derive substantially all of our revenues from our business operations in Shanghai. Our business, financial condition and results of operations will accordingly be subject to economic, political and legal developments in the PRC.

Political and economic conditions in the PRC may affect our business.

Political and economic risks in the PRC may affect our business. We derive substantially all of our revenue from the PRC and the PRC market accounts for substantially all of our operating profits. The demand for residential property in the PRC is closely linked with the living standards and economic growth of the PRC.

Between 1978 and 2008, China's gross domestic product increased from approximately RMB362 billion to approximately RMB30,067 billion. There is no assurance that such growth will be sustained in the future. The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, control of foreign exchange, allocation of resources and balance of payment position. For the past two decades, the PRC government has implemented economic reform measures emphasizing the utilisation of market forces in the development of the PRC economy. However, since early 2004, the PRC government has implemented certain measures in order to prevent the PRC economy from overheating. These measures may cause a decrease in the level of economic activity, including demand for residential property and may have an adverse impact on economic growth in the PRC. If China's economic growth slows down or if the Chinese economy experiences a recession, the growth or demand for residential property, especially at the higher end of the market, may also slow down or stop and our business, financial condition and results of operations will be adversely affected.

Demand for residential property and our business, financial condition and results of operations may be adversely affected by:

- political instability or changes in social conditions in the PRC;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- reduction in tariff protection and other import restrictions.

Our revenue, which is denominated in Renminbi, is not freely convertible for capital account transactions and may be subject to exchange rate volatility.

We receive substantially all of our revenue in Renminbi, which must be converted to pay dividends or make other payments in freely convertible currencies. Under the PRC's foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade, may be made in foreign currencies without prior approval, subject to following certain procedural requirements. However, strict foreign exchange controls continue for capital account transactions, including repayment of loan principal and return of direct capital investments and investments in negotiable securities. In the past, there have been shortages of US dollars or other foreign currency available for conversion of Renminbi in the PRC, and such shortages could recur and restrictions on conversion could be re-imposed.

On July 21, 2005, the PBOC announced changes to the Renminbi exchange rate regime, largely in response to the general perception that the Renminbi was undervalued against the US dollar. Since July 21, 2005, the PRC has reformed the exchange rate regime by moving to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies and the Renminbi is no longer pegged specifically to US dollars. The exchange rate regime does not constitute a strict peg of the Renminbi to a basket of currencies, but instead the RMB is allowed to fluctuate within a narrow +1-0.3% range around a central parity rate (defined as the previous day's closing RMB/US$ rate). The reference basket is used as a guide as to whether the RMB/US dollar rate should rise or fall.

There is no assurance that the RMB/US dollar exchange rate will be stable in the future. Any devaluation of the Renminbi against the US dollar will increase the amount of Renminbi we will need to service our US dollar obligations. As a result, any depreciation of RMB against US dollar may materially and adversely affect our business, financial condition and results of operations.

The PRC legal system is less developed than in certain other countries and its laws may not be interpreted or enforced in a consistent manner.

The PRC legal system is less developed than in certain other countries and its laws may not be interpreted and enforced in a consistent manner. The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on our business and prospects. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be subject to policy changes that reflect domestic political changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the PRC-emption of local regulations by national laws may have a material adverse effect on our business, financial condition and results of operations.

It may be difficult to enforce any judgments obtained from non-PRC courts against us in the PRC.

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United Kingdom or most other western countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

Profits from our PRC operating subsidiaries available for distribution are determined under PRC GAAP.

We derive substantially all of our profits from the property development activities of our operating subsidiary companies established in the PRC. The profits available for distribution by us are therefore dependent on, to a significant extent, the profits available for distribution by the PRC subsidiaries to us. In turn, profits available for distribution by companies established in the PRC are determined in accordance with generally accepted accounting principles and financial regulations in the PRC ("PRC GAAP") and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. In addition, under the relevant PRC financial regulations, profits available for distribution are determined after transfers to statutory reserve funds.

We do not currently hedge our foreign exchange risk.

We do not currently hedge our foreign exchange risk. Following the offering of the Bonds, we may enter into foreign exchange on interest rate hedging agreements in respect of our US dollar liabilities under the Bonds. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark to-market adjustments.

Risks Relating to the Bonds and the Shares

We are a holding company and payments with respect to the Bonds are effectively subordinated to all of our existing and future secured indebtedness and are structurally subordinated to all liabilities of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Bonds will not be guaranteed by any current or future subsidiaries, including PRC subsidiaries. Our primary assets are ownership interests in our PRC subsidiaries, which are held through subsidiaries incorporated outside China. These offshore subsidiaries do not have material operations. Accordingly, our ability to pay principal on the Bonds will depend upon distributions of dividends from our subsidiaries. A number of our PRC subsidiaries have entered into onshore loan agreements with banks, pursuant to which their ability to pay dividends is restricted during the term of the relevant loan facilities. In addition, we have to comply with financial and other covenants and are subject to other limits on our business and our ability to pay dividends under our other loan facilities. See "Description of Other Material Indebtedness-Loan Facilities" for a description of the material terms of the loan facilities that we consider most material. As such, these restrictions on the availability and usage of our major source of funding may materially and adversely affect our ability to pay dividends to our shareholders and to service our debts.

The Bonds are unsecured, are effectively subordinated to all of our existing and future secured indebtedness to the extent of the assets securing such indebtedness, and are structurally subordinated to all liabilities of our subsidiaries, including trade payables. As at March 31, 2009, we had approximately HK$6,109 million of short-term bank borrowings, long-term bank borrowings, convertible bonds and guaranteed notes, to which the Bonds would be structurally subordinated. Creditors, including trade creditors of our PRC subsidiaries, would have a claim on the PRC subsidiaries' assets that would be prior to the claims of the holders of the Bonds. As a result, our payment obligations under the Bonds will be effectively subordinated to all existing and future obligations of our PRC subsidiaries (including obligations of our PRC subsidiaries under guarantees issued in connection with our business), and all claims of creditors of our PRC subsidiaries will have priority over our claims and those of our creditors, including holders of the Bonds. The Bonds and the Trust Deed do not restrict the ability of our subsidiaries to issue guarantees. In addition, our secured creditors would have priority as to our assets over claims of the holders of the Bonds.

We have made only limited covenants in the Trust Deed for the Bonds, and these limited covenants may not protect your investment.

The Trust Deed for the Bonds does not:

- require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flows or liquidity and, accordingly, does not protect holders of the Bonds in the event that we experience significant adverse changes in our financial condition or results of operations;
- limit our subsidiaries' ability to incur indebtedness which would effectively rank senior to the Bonds;
- limit our ability to incur secured indebtedness or indebtedness that is equal in right of payment to the Bonds;
- restrict our subsidiaries' ability to issue securities that would be senior to the ordinary shares of our subsidiaries held by us;
- restrict our ability to repurchase our securities;
- restrict our ability to pledge our assets or those of our subsidiaries; or
- restrict our ability to make investments or to pay dividends or make other payments in respect of our ordinary shares, including shares or other securities ranking junior to the Bonds.

Furthermore, the Trust Deed for the Bonds contains only limited protections in the event of a change in control. We could engage in many types of transactions, such as acquisitions, refinancings or recapitalizations, which could substantially affect our capital structure and the value of the Bonds and our Shares but may not constitute a change of control as defined in the "Terms and Conditions of the Bonds" that permits holders to require us to repurchase their Bonds.

We may not have the ability to redeem the Bonds in cash if you exercise your early redemption right on the date specified in this Offering Circular, or upon the occurrence of a change of control or delisting or at maturity.

You may require us, subject to certain conditions, to redeem for cash all or some of your Bonds on July 23, 2012 or upon a transaction or event constituting a change of control or delisting as described under the headings "Terms and Conditions of the Bonds – Redemption at the Option of the Bondholders" and "Terms and Conditions of the Bonds – Redemption for Delisting or Change of Control". We may not have sufficient funds or other financial resources to make the required redemption in cash at such time or the ability to arrange necessary financing on acceptable terms. In addition, our ability to redeem the Bonds in cash may be limited by law, by the terms of other trust deeds, indentures or agreements relating to our debt and by indebtedness and agreements that we may enter into in the future which may replace, supplement or amend our existing or future indebtedness. If the exercise of the redemption right on the date specified in this Offering Circular or upon the occurrence of a change of control or delisting occurs at a time when we are prohibited from redeeming the Bonds, we could seek the consent of lenders to redeem the Bonds or could attempt to refinance the borrowings that contain this prohibition. If we are not able to obtain consent or refinance these borrowings, we could remain prohibited from redeeming the Bonds. Our failure to redeem tendered Bonds would constitute an event of default under the Trust Deed under which we will issue the Bonds, which might constitute a default under the terms of our other indebtedness at that time.

Transfer of the Bonds and the Shares issuable upon conversion of the Bonds will be restricted.

The Bonds and the Shares, including Shares issuable upon conversion of the Bonds, have not been registered under the U.S. Securities Act. Accordingly, the Bonds and Shares may only be offered or sold pursuant to an exemption from the registration requirements of the U.S. Securities Act or pursuant to an effective registration statement. Such transfer restrictions may negatively affect the value of the Bonds and the Shares.

Before conversion, a holder of Bonds will not be entitled to any shareholder rights, but will be subject to all changes affecting our Shares.

Before you convert the Bonds, you will not be entitled to any rights with respect to our Shares, including voting rights and rights to receive dividends or distributions. However, the Shares you receive upon conversion of your Bonds will be subject to all changes affecting our Shares. Except for limited cases under the adjustments to the conversion price, you will be entitled only to rights that we may grant with respect to our Shares if and when we deliver the Shares to you upon your election to convert your Bonds into Shares. For example, if we seek approval from shareholders for a potential merger, or if an amendment is proposed to our memorandum of association and by-laws that requires shareholder approval, holders of the Bonds will not be entitled to vote on the merger or amendment.

Conversion of the Bonds will dilute the ownership interest of existing shareholders and future issuances of our securities could dilute your ownership.

The conversion of some or all of the Bonds will dilute the ownership interest of existing shareholders. Any sales in the public market of the Shares issuable upon such conversion could adversely affect prevailing market prices of our Shares and the Bonds. In addition, the existence of the Bonds may encourage short selling by market participants because the conversion of the Bonds could depress the price of our Shares.

Because the Bonds are represented by global Bonds registered in the name of a depositary, you will not be a "holder" under the Trust Deed and your ability to transfer or pledge the Bonds could be limited.

The Bonds will be represented by one or more global securities registered in the name of a nominee of the common depositary for Euroclear and Clearstream. Except in the limited circumstances described in this Offering Circular, owners of beneficial interests in the global securities will not be entitled to receive physical delivery of Bonds in certificated form and will not be considered "holders" of the Bonds under the Trust Deed for any purpose. Instead, owners must rely on the procedures of Euroclear and Clearstream and their participants to protect their interests under the Trust Deed. In addition, because the laws of some states require that certain persons take physical delivery in definitive form of securities they own, you may be unable to transfer your Bonds to those persons. Your ability to pledge your interest in the Bonds to persons or entities that do not participate in Euroclear or Clearstream system, as applicable, may also be adversely affected by the lack of a certificate.

The price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. We cannot assure you that these developments will not occur in the future.

Certain facts and statistics are derived from publications not independently verified by us, the Joint Bookrunners or our respective advisors.

Facts and statistics in this Offering Circular relating to China's economy and the real estate industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Joint Bookrunners or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial condition and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

As at March 31, 2009, our unaudited consolidated indebtedness, representing the total of long-term bank loans, short-term bank loans, convertible bonds and guaranteed notes was approximately HK$6,109 million. On an adjusted basis as at that date, after giving effect to the offering of the Bonds (on the basis that the aggregate principal amount of the Bonds are presented as a liability), our unaudited consolidated indebtedness was approximately HK$6,616 million. We may from time to time incur substantial additional indebtedness. If we or our subsidiaries incur additional debt, the risks that we face as a result of such indebtedness and leverage could intensify. The amount of our indebtedness could have important consequences to the Bondholders. For example, it could:

- limit our ability to satisfy our obligations under the Bonds and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in the businesses in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of such indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. Although we anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due, if we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing existing indebtedness or seeking equity capital. These strategies if implemented may not be instituted on satisfactory terms.

There is a lack of a public market for the Bonds.

The Bonds are a new issue of securities for which there is currently no trading market. Application has been made to the Hong Kong Stock Exchange for the Bonds to be admitted for trading on the Hong Kong Stock Exchange. There is no assurance that an active trading market for the Bonds will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds. The Joint Bookrunners are not obliged to make a market in the Bonds and any such market-making, if commenced, may be discontinued at any time at the sole discretion of the Joint Bookrunners.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Bonds depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us. Our PRC subsidiaries receive substantially all of their revenues in Renminbi. Our PRC subsidiaries must present certain documents to the SAFE, its authorised branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid). If any such PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, the PRC subsidiary will be unable to pay us dividends or make other payments to us which may affect our ability to satisfy our obligations under the Bonds.

Holders will bear the risk of fluctuations in the price of the Shares.

The market price and trading volume of the Bonds at any time will be affected by fluctuations in the price of the Shares. The Shares are currently listed on the Hong Kong Stock Exchange. There can be no certainty as to the effect, if any, that future issues or sales of Shares, or the availability of such Shares for future issue or sale, will have on the market price of the Shares prevailing from time to time and therefore on the price of the Bonds.

Sales of substantial numbers of Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and the Bonds. The results of our operations, financial condition, future prospects and business strategy could affect the value of the Shares. The trading price of the Shares will be influenced by our operational results (which in turn are subject to the various risks to which our businesses and operations are subject, which are not described herein) and by other factors such as changes in the regulatory environment that may affect the markets in which we operate and capital markets in general. Corporate events such as share sales, reorganisations, takeovers or share buy-backs may also adversely affect the value of the Shares. Any decline in the price of the Shares would adversely affect the market price of the Bonds.

Adjustments by the Bond investors of their hedging positions in our Shares and the expectation thereof may have a negative effect on the market price of our Shares.

The 150,000,000 Shares that may be offered in connection with the stock borrow agreement between SRE Investment Holding Limited, our principal shareholder, and affiliates of the Joint Bookrunners are expected to be used by investors in the Bonds to establish hedging positions with respect to our Shares through short sale transactions or privately negotiated derivative transactions. The number of Shares offered in the concurrent offering may be more or less than the number of Shares that will be needed in such hedging transactions. Any buying or selling of our Shares by investors in the Bonds to adjust their hedging positions in connection with this offering or in the future may have a negative effect on the market price of our Shares.

The insolvency laws of Bermuda and other local insolvency laws may differ from bankruptcy law in jurisdictions with which the holders of the Bonds are familiar.

Because we are incorporated under the laws of the Bermuda, an insolvency proceeding relating to us may involve Bermuda insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of jurisdictions with which the holders of the Bonds are familiar, such as United States federal bankruptcy law.

Holders have limited anti-dilution protection.

The conversion price of the Bonds will be adjusted in the event that there is a sub-division, consolidation or redenomination, rights issue, bonus issue, reorganisation, capital distribution or other corporate or other event including an offer or scheme that affects Shares, but only in the circumstances and only to the extent provided in "Terms and Conditions of the Bonds – Conversion". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

There may be less publicly available information about us than is available in certain other jurisdictions, and our consolidated financial statements will be prepared in accordance with HKFRS.

The publicly available information about companies listed in Hong Kong may be different from that regularly made available by public companies in other countries. In addition, our financial statements are prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles of other countries.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discount and other estimated expenses payable in connection with this offering, will be approximately US$64 million. We intend to use the net proceeds:

- to fund our purchase of the US$200,000,000 8.625% Guaranteed Notes due 2013 pursuant to an Offer to Purchase and Consent Solicitation Statement dated June 8, 2009 (the "Bond Tender");
- to fund the expenses payable by us in connection with the Bond Tender; and
- for general corporate purposes.

For more information about the Bond Tender, see "Recent Developments – Tender Offer and Consent Solicitation with respect to Guaranteed Notes".

In the event an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described above. We intend to invest any additional net proceeds in short-term, interest-bearing, debt instruments or bank deposits.

CAPITALISATION

The following table sets forth our unaudited consolidated capitalisation as at March 31, 2009:

- on an actual basis;
- as adjusted to give effect to the estimated net proceeds of approximately HK$482.7 million from the top-up placement of 520,000,000 Shares, which was completed on July 3, 2009 (the "Top-up Placement"); and
- as further adjusted to give effect to:
  - the issue of the Bonds (based on the aggregate principle amount of the Bonds and without deducting the underwriting discounts and commissions or other related expenses payable by us); and
  - our purchase and cancellation of US$128,539,000 principal amount of the Guaranteed Notes pursuant to the Bond Tender as if we purchased and cancelled such Guaranteed Notes on March 31, 2009 and without reflecting any gain or loss related to such purchase and cancellation.

See "Recent Developments" for more details on the Top-up Placement and the Bond Tender. Except as otherwise disclosed herein, there has been no material change in our capitalisation since March 31, 2009.

	As at March 31, 2009		
	Actual	As Adjusted	As Further Adjusted
	HK$	HK$	HK$
		(in millions) (unaudited)	
Short-term borrowings[(1)]			
Bank borrowings-secured	2,008	2,008	2,008
Other borrowings-unsecured	58	58	58
Total short-term borrowings	2,066	2,066	2,066
Convertible bonds[(2)]	67	67	67
Long-term borrowings[(3)]			
Bank borrowings-secured	2,316	2,316	2,316
Bonds to be issued[(4)]	–	–	507
Other borrowings-unsecured	87	87	87
Total long-term borrowings	2,403	2,403	2,910
Guaranteed Notes	1,573	1,573	562
Capital and reserves			
Issued capital and share premium[(5)]	4,003	4,486	4,486
Other reserves	1,020	1,020	1,020
Retained earnings[(6)]	1,431	1,431	1,431
Total capitalisation[(7)]	12,563	13,046	12,542

Notes:

(1) Short-term borrowings include the current portion of long-term borrowings.

(2) This represents the balance of the "host debt portion" of the convertible bonds (which excludes the value of the conversion option) under amortization. As at the date of this Offering Circular, all of the convertible bonds have been converted into Shares of the Company, and as such, there are no convertible bonds outstanding. For more details of the convertible bonds, see "Description of Other Material Indebtedness".

(3) Long-term borrowings exclude the current portion of long-term borrowings.

(4) In accordance with Hong Kong Accounting Standard 32 "Financial Instruments: Presentation", a convertible bond may be split into an equity and a liability component. For illustrative purposes only, the aggregate principal amount of the Bonds to be issued has been presented as a liability in the above table.

(5) If all the Bonds were converted at the initial conversion price of HK$1.065 per Share, up to an additional 479,928,280 Shares would be issuable upon conversion.

(6) This does not reflect any gain or loss related to the Bond Tender and conversion of the convertible bonds.

(7) Total capitalisation consists of total short-term borrowing, long-term borrowings, convertible bonds, guaranteed notes and total capital and reserves.

TERMS AND CONDITIONS OF THE BONDS

The following (other than the paragraphs in italics) is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the RMB446,900,000 aggregate principal amount of US$ Settled 6% Convertible Bonds due 2014 (the "Bonds", which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) of SRE Group Limited (the "Company") and the right of conversion into Shares (as defined in Condition 6(A)(v)) of the Company were authorised by resolutions of the Board of Directors of the Company passed on June 29, 2009 and resolutions of the shareholders of the Company passed on July 13, 2009. All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed from or against the Company shall be payable and settled in US dollars only in accordance with the provisions of these Conditions and of the Trust Deed. The Bonds are constituted by a trust deed (as amended or supplemented from time to time, the "Trust Deed") to be dated on or about July 23, 2009 (the "Issue Date") made between the Company and DB Trustees (Hong Kong) Limited as trustee for the holders of the Bonds (the "Trustee", which term shall, where the context so permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Deed) and are subject to the paying, conversion and transfer agency agreement to be dated on or about July 23, 2009 (as amended or supplemented from time to time, the "Agency Agreement") with the Trustee, Deutche Bank AG, Hong Kong Branch as principal paying and conversion agent (the "Principal Agent"), Deutche Bank AG, Hong Kong Branch as transfer agent and Deutche Bank Luxemburg S.A. as registrar (the "Registrar") and the other paying, conversion and transfer agents appointed under it (each a "Paying Agent", "Conversion Agent", "Transfer Agent" and together with the Registrar and the Principal Agent, the "Agents") relating to the Bonds. References to the "Principal Agent", "Registrar" and "Agents" below are references to the principal agent, registrar and agents for the time being for the Bonds. The statements in these terms and conditions (these "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed. Copies of the Trust Deed and the Agency Agreement are available for inspection at the registered office of the Trustee being at the date hereof at 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong SAR, and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. Status and Form

A. Status

The Bonds constitute direct, unsubordinated, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

B. Form and Denomination

The Bonds are issued in registered form in the denomination of RMB100,000 or higher integral multiples thereof, without coupons attached. A Bond certificate (each a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Company will cause to be kept by the Registrar.

Upon issue, the Bonds will initially be represented by one or more Global Certificates deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream. The Conditions are modified by certain provisions contained in the Global Certificates.

2. Title

Title to the Bonds passes only by transfer and registration in the register of Bondholders as described in Condition 3. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Terms and Conditions, "Bondholder" and (in relation to a Bond) "holder" mean the person in whose name a Bond is registered.

3. Transfers of Bonds; Issue of Certificates

A. Register

The Company will cause to be kept at the specified office of the Registrar outside Hong Kong and the United Kingdom and in accordance with the terms of the Agency Agreement a register on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds (the "Register"). Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

B. Transfer

Subject to Condition 3(E) and the terms of the Agency Agreement, a Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any of the Agents. No transfer of a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificates will be effected in accordance with the rules of the relevant clearing systems.

C. Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within five business days of receipt by the Registrar or, as the case may be, any other relevant Agent of the original certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder and at the Company's expense) to the address specified in the form of transfer. The form of transfer is available at the specified office of the Principal Agent.

Except in the limited circumstances described herein (see "Global Certificates"), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred or converted, a new Certificate in respect of the Bonds not so transferred or converted will, within five business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred or converted (but free of charge to the holder and at the Company's expense) to the address of such holder appearing on the Register.

For the purposes of this Condition 3, "business day" shall mean a day (other than a Saturday, Sunday or public holiday) on which banks are open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the Agent with whom a Certificate is deposited in connection with a transfer or conversion, is located.

D. Formalities Free of Charge

Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Company or any of the Agents, but upon payment (or the giving of such indemnity as the Company or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

E. Closed Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of fifteen days ending on (and including) the dates for payment of any principal or interest pursuant to the Conditions; (ii) during the period of fifteen days ending on (and including) the dates for redemption pursuant to Condition 8(B) and Condition 8(C); (iii) after a Conversion Notice (as defined in Condition 6(B)) has been delivered and not withdrawn with the consent of the Company with respect to a Bond; or (iv) after a Relevant Event Redemption Notice (as defined in Condition 8(D)) or a Put Exercise Notice (as defined in Condition 8(E)) has been deposited and not withdrawn with the consent of the Company in respect of such Bond. Each such period is a "Closed Period".

F. Regulations

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Bondholder and at the expense of the Company) by the Registrar to any Bondholder upon request.

4. Negative Pledge

(a) Negative Pledge

The Company undertakes that, so long as any of the Bonds remains outstanding (as defined in the Trust Deed) or any amount is due under or in respect of any Bond or otherwise under the Trust Deed, it will not, and will procure that none of its Subsidiaries will, create or permit to subsist or arise any Encumbrance upon the whole or any part of their respective present or future assets or revenues to secure any Relevant Indebtedness of the Company or any other Subsidiary of the Company or to secure any guarantee of or indemnity in respect of any such Relevant Indebtedness unless, at the same time or prior thereto, the Company's obligations under the Bonds are secured equally and rateably by the same Encumbrance or, at the option of the Company by such other security as the Bondholders by Extraordinary Resolution may approve.

(b) Interpretation

In these Conditions

(i) any reference to an "Encumbrance" is to a mortgage, charge, pledge, lien or other encumbrance or security interest securing any obligation of any person;

(ii) any reference to "Relevant Indebtedness" is to any future and present indebtedness in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depository receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are issued with the intention on the part of the issuer thereof that they should be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or on any other securities market (whether or not initially distributed by way of private placement);

(iii) any reference to a "Subsidiary" of any person is to:

(a) any company or other business entity of which that person (either directly or through one or more other Subsidiaries): (aa) controls the affairs of such company or other business entity; (bb) owns, holds or controls more than 50% of the voting rights at a meeting of the Board of Directors or a meeting of a similar body of that company or other business entity; or (cc) owns, holds or controls more than 50% of the issued share capital or other ownership interest or contractual rights having ordinary voting power to elect Directors, managers or trustees of such company or other business entity or

(b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the Bermuda or Hong Kong law, regulations or generally accepted accounting principles from time to time, should have its accounts consolidated with those, or be accounted for as a jointly controlled entity or associate, of that person; and

(iv) for the purposes of this Condition 4, China New Town Development Company Limited shall not be deemed to be a Subsidiary unless it is a Subsidiary by virtue of clause (iii)(a)(bb) or (iii)(a)(cc) of the definition of "Subsidiary" above.

5. Interest

A. Interest Rate and Interest Payment Dates

The Bonds bear interest on their principal amount from and including July 23, 2009 (the "Issue Date") at the rate of 6% per annum. Interest is payable semi-annually in arrear on January 23 and July 23 of each year (each an "Interest Payment Date") commencing January 23, 2010.

B. Interest Accrual

Each Bond will cease to bear interest (a) (subject to Condition 6(B)(iv)) from and including the Interest Payment Date last preceding its Conversion Date (as defined below) (or if such Conversion Date falls on or before the first Interest Payment Date, July 23, 2009) subject to conversion of the relevant Bond in accordance with the provisions of Condition 6(B), or (b) from and including the due date for redemption thereof unless, upon surrender in accordance with Condition 8, payment of the full amount due is improperly withheld or refused or default is otherwise made in respect of any such payment. In such event, interest will continue to accrue on the overdue amount at the rate of 10% (both before and after any judgment) up to but excluding the date on which all sums due in respect of the relevant Bond are received by or on behalf of the relevant holder. Except as provided in Condition 6(B) (ix), no payment or adjustment will be made on conversion for any interest accrued on converted Bonds since the last Interest Payment Date last preceding the relevant Conversion Date, or, if the Bonds are converted on or before the first Interest Payment Date, since the Issue Date.

C. Calculation of Interest

If interest is required to be calculated for a period of less than a full year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. Conversion

A. Conversion Right

(i) *Conversion Period:* Subject as hereinafter provided, Bondholders have the right to convert their Bonds into Shares at any time during the Conversion Period referred to below.

The right of a Bondholder to convert any Bond into Shares is called the "Conversion Right". Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on and after September 2, 2009 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on July 13, 2014 (but, except as provided in Condition 6(A)(iv), in no event thereafter) or if such Bond shall have been called for redemption by the Company before the Maturity Date (as defined in Condition 8(A)), then up to the close of business (at the place aforesaid) on a date no later than seven business days (in the place aforesaid) prior to the date fixed for redemption thereof (the "Conversion Period").

The number of Shares to be issued on conversion of a Bond will be determined by dividing the RMB principal amount of the Bond to be converted (translated into Hong Kong dollars at the fixed exchange rate of HK$1.00= RMB0.8818) by the Conversion Price in effect at the Conversion Date (both as hereinafter defined). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate RMB principal amount of the Bonds to be converted.

(ii) *Fractions of Shares:* Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after June 29, 2009 which reduces the number of Shares outstanding, the Company will upon conversion of Bonds pay in cash (in US dollars by means of a US dollar cheque drawn on a bank in New York City) the US Dollar Equivalent of a sum equal to such portion of the RMB principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6(A)(i) as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds US$10.00. Any such sum shall be paid not later than three Stock Exchange Business Days (as defined in Condition 6(B)(i)) after the relevant Conversion Date.

(iii) *Conversion Price:* The price at which Shares will be issued upon conversion (the "Conversion Price") will initially be HK$1.056 per Share but will be subject to adjustment in the manner provided in Conditions 6(C) and 6(D).

The initial conversion price represents an initial conversion ratio of 107,390.5304 Shares per RMB100,000 principal amount of Bonds, determined by dividing the RMB100,000 principal amount (translated into HK dollars at the fixed exchange rate of HK$1.00 = RMB0.8818) by the initial conversion price.

(iv) *Revival and/or survival after Default:* Notwithstanding the provisions of Condition 6(A)(i), if (a) the Company shall default in making payment in full in respect of any Bond which shall have been called for redemption on the date fixed for redemption thereof, (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10 or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(A), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of Condition 6(A)(i), any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined below) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.

(v) *Meaning of "Shares":* As used in these Conditions, the expression "Shares" means ordinary shares of par value HK$0.10 each of the Company or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company.

B. Conversion Procedure

(i) *Conversion Notice:* To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Conversion Agent a notice of conversion (a "Conversion Notice") in duplicate in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and any amounts required to be paid by the Bondholder under Condition 6(B)(ii).

The conversion date in respect of a Bond (the "Conversion Date") must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6(A)(iv) above) and will be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Company consents in writing to such withdrawal. "Stock Exchange Business Day" means any day (other than a Saturday or Sunday) on which The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") or the Alternative Stock Exchange (as defined in Condition 6(C) below), as the case may be, is open for business of dealing in securities.

(ii) *Stamp Duty etc.:* A Bondholder delivering a Certificate in respect of a Bond for conversion must pay to the relevant Conversion Agent any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in Bermuda, Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Company in respect of the allotment and issue of Shares and listing of the Shares on the Hong Kong Stock Exchange or the Alternative Stock Exchange on conversion) (the "Taxes") and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion. The Company will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued) must provide the Agent with details of the relevant tax authorities to which the Agent must pay monies received in settlement of Taxes payable pursuant to this Condition 6(B)(ii). The Agent is under no obligation to determine whether a Bondholder is liable to pay any Taxes including capital, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Condition 6(B)(ii).

(iii) *Registration:* As soon as practicable, and in any event not later than five Stock Exchange Business Days (as defined below) after the Conversion Date, the Company will, in the case of Bonds converted on exercise of the Conversion Right and in respect of which a duly completed Conversion Notice has been delivered and the relevant Certificate and amounts payable by the relevant

Bondholder deposited as required by sub-paragraphs (i) and (ii), register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Company's share register and will, if the Bondholder has also requested in the Conversion Notice and to the extent permitted under the rules and procedures of the Central Clearing and Settlement System of Hong Kong (the "CCASS") effective from time to time, take all necessary actions to procure that Shares are delivered through the CCASS for so long as the Shares are listed on the Hong Kong Stock Exchange; or will make such certificate or certificates available for collection at the office of the Company's share registrar in Hong Kong (currently Standard Registrars Ltd.) notified to Bondholders in accordance with Condition 16 or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

If the Conversion Date in relation to any Bond shall be on or after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 6(C) or 6(D), but before the relevant adjustment becomes effective under the relevant Condition, upon the relevant adjustment becoming effective the Company shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares as, together with the Shares issued or to be issued on conversion of the relevant Bond, is equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective on or immediately after the relevant record date.

The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Company's register of members (the "Registration Date"). The Shares issued upon conversion of the Bonds will be fully-paid and in all respects rank pari passu with the Shares in issue on the relevant Registration Date. Save as set out in these Conditions, a holder of Shares issued on conversion of Bonds shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in this sub-paragraph (iii) prior to the time such retroactive adjustment shall have become effective), the Company will pay to the converting Bondholder or his designee the US Dollar Equivalent of an amount in Hong Kong dollars (the "Equivalent Amount") equal to the Fair Market Value (as defined below) US Dollar Equivalent of any such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by means of a US dollar cheque drawn on a bank in New York City and sent to the address specified in the relevant Conversion Notice.

(iv) *Interest Accrual*: If any notice requiring the redemption of any Bonds is given pursuant to Condition 8(B) or Condition 8(C) during the period beginning on the 15th day prior to the record date in respect of any dividend payable in respect of the Shares and ending on the Interest Payment Date next following such record date, where such notice specifies a date for redemption falling on or prior to the date which is 14 days after such next following Interest Payment Date, where Certificates have been delivered for conversion and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date, interest shall accrue on the Bonds from the preceding Interest Payment Date (or, if the relevant Conversion Date falls on or before the first Interest Payment Date, from, and including, July 23, 2009) to, but excluding, the relevant Conversion Date; provided that no such interest shall accrue on any Bond in the event that the Shares issued on conversion thereof shall carry an entitlement to receive such dividend or in the event the Bond carries an entitlement to receive an Equivalent Amount (as defined herein). Any such interest shall be paid not later than 14 days after the relevant Conversion Date by US dollar cheque drawn on, or by transfer to a US dollar account maintained by the payee with, a bank in New York City, in accordance with instructions given by the relevant Bondholder.

C. Adjustments to Conversion Price

The Conversion Price will be subject to adjustment in the following events as set out in the Trust Deed:

(1) *Consolidation, Subdivision or Reclassification:* If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

Where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(2) *Capitalisation of Profits or Reserves:*

(i) If and whenever the Company shall issue any Shares credited as fully paid to the holders of Shares ("Shareholders") by way of capitalisation of profits or reserves (including any share premium account) including, Shares paid up out of distributable profits or reserves and/or share premium account issued (except any Scrip Dividend) and which would not have constituted a

Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

Where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

(ii) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price of such Shares exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A+B}{A+C}$$

Where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;

B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the Current Market Price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(3) *Distributions:* If and whenever the Company shall pay or make any Distribution to the Shareholders (except to the extent that the Conversion Price falls to be adjusted under Condition 6(C)(2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

$$\frac{A-B}{A}$$

Where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which the Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

(4) *Rights Issues of Shares or Options over Shares:* If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, of options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than the Current Market Price per Share on the last Trading Day preceding the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

Where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

(5) *Rights Issues of Other Securities:* If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights, of options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A-B}{A}$$

Where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

(6) *Issues at less than Current Market Price:* If and whenever the Company shall issue (otherwise than as mentioned in Condition 6(C)(4) above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for,

Shares) or the issue or grant (otherwise than as mentioned in Condition 6(C)(4) above) of options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares in each case at a price per Share which is less than the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A+B}{C}$$

Where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;

B is the number of Shares which the aggregate consideration (including for the avoidance of doubt, in the case of the issue or grant of options, warrants or other rights, the consideration receivable for the issue and exercise of such options, warrants or rights), if any, receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and

C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue of such options, warrants or other rights.

(7) *Other Issues at less than Current Market Price:* Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Condition 6(C)(7), if and whenever the Company or any of its Subsidiaries (otherwise than as mentioned in Conditions 6(C)(4), 6(C)(5) or 6(C)(6)), or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity shall issue any securities (other than the Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A-B}{A}$$

Where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is announced; and

B is the difference on a per Share basis between the Fair Market Value on the date of announcement of the issue of such securities and the issue price of such securities.

Such adjustment shall become effective on the date of issue of such securities.

(8) *Modification of Rights of Conversion etc.:* If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6(C)(7) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than is less than the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A-B}{A}$$

Where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which such modification is announced; and

B is the difference on a per Share basis between the Fair Market Value of the modification on the date of announcement and the consideration received for such modification.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

(9) *Other Offers to Shareholders:* If and whenever the Company or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Condition 6(C)(4), Condition 6(C)(5), Condition 6(C)(6) or Condition 6(C)(7)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A-B}{A}$$

Where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and

B in the case of an offer made by the Company or any of its Subsidiaries, is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share, and in the case of an offer not made by the Company or any of its Subsidiaries, the difference, attributable to the request, direction made by the Company or any of its Subsidiaries or arrangement with the Company or any of its Subsidiaries, if positive, of (1) the Fair Market Value on a per Share basis of the Shares that holders of the Bonds can obtain by exercising the Conversion Rights immediately preceding the public announcement of such offer, minus (2) the Fair Market

Value on a per Share basis of the Shares that holders of the Bonds can obtain by exercising the Conversion Rights immediately after the announcement of such offer.

Such adjustment shall become effective on the date of issue of the securities.

(10) *Other Events:* If the Company or the Trustee determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this Condition 6 but that have or would have an effect on the position of the holders of the bonds, as a class, compared with the position of the holders of all the other securities (including options and rights relating thereto) of the Company, taken as a class, which are analogous to the events referred to in Conditions 6(C)(1) through 6(C)(9), the Company shall, at its own expense, consult an Independent Investment Bank, to determine as soon as practicable (i) what adjustment (if any) to the Conversion Price is fair and reasonable to ensure that the Fair Market Value (immediately after the event) of the Shares that holders of the Bonds can obtain by exercising the Conversion Rights using the adjusted Conversion Price (immediately after the event) would be equal to the Fair Market Value (immediately before the event) of the Shares that holders of the Bonds can obtain by exercising the Conversion Rights at the Conversion Price in effect immediately before the event, (ii) if the adjustment would result in a reduction in the Conversion Price, and (iii) the date on which such adjustment should take effect, and upon such determination by the Independent Investment Bank such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the events or circumstances giving rise to any adjustment pursuant to this Condition 6 have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6 as may be advised by the Independent Investment Bank to be in their opinion appropriate to give the intended result.

(11) *Rounding and Minor Adjustments.* On any adjustment, the relevant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1% of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to Bondholders in accordance with Condition 16 as soon as practicable after the determination thereof.

The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value.

(12) *More than One Event in Quick Succession.* Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Investment Bank, the foregoing provisions would need to be operated subject to some modification in order to ensure that the Fair Market Value (immediately after the events) of the Shares that holders of the Bonds can obtain by exercising the Conversion Rights using the adjusted Conversion Price (immediately after the events) would be equal to the Fair Market Value (immediately before the events)

of the Shares that holders of the Bonds can obtain by exercising the Conversion Rights at the Conversion Price in effect immediately before the events, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Investment Bank to be in their opinion appropriate in order to give such intended result.

(13) *Employee Share Scheme.* No adjustment will be made to the Conversion Price when Shares or other securities (including rights or options) are issued, offered or granted to employees (including Directors) of the Company or any Subsidiary of the Company pursuant to any Employee Share Scheme (as defined in the Trust Deed) (and which Employee Share Scheme is in compliance with the listing rules of the Hong Kong Stock Exchange or, if applicable, those of an Alternative Stock Exchange).

(14) *Increases in Conversion Price.* No adjustment resulting in an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in Condition 6(C)(1) above.

(15) *Trustee.* Neither the Trustee nor any Agent shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

For the purposes of these Conditions:

"Alternative Stock Exchange" means at any time, in the case of the Shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in.

"Closing Price" for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day.

"Current Market Price" means, in respect of a Share at a particular date, the average of the Closing Prices for one Share (being a Share carrying full entitlement to dividend) for the five consecutive Trading Days ending on the Trading Day immediately preceding such date, provided that if at any time during the said five Trading Day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

(i) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share; or

(ii) if the Shares to be issued in such circumstances rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

and provided further that if the Shares on each of the said five Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share.

"Distribution" means any dividend or distribution (whether of cash or assets in specie) by the Company for any financial period (whenever paid or made and however described) (and for these purposes a distribution of assets in specie includes without limitation an issue of shares or other securities credited as fully or partly paid (other than Shares credited as fully paid to the extent an adjustment to the Conversion Price is made in respect thereof under Condition 6(C)(2)(i)) by way of capitalisation of reserves and including any Scrip Dividend to the extent of the Relevant Cash Dividend) unless it comprises a purchase or redemption of Shares by or on behalf of the Company (or a purchase of Shares by or on behalf of a Subsidiary of the Company), where the weighted average price (before expenses) on any one day in respect of such purchases does not exceed the Current Market Price of the Shares as published in the Daily Quotation Sheet of the Hong Kong Stock Exchange or the equivalent quotation sheet of an Alternative Stock Exchange, as the case may be, either (1) on that date, or (2) where an announcement has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day.

In making any such calculation, such adjustments (if any) shall be made as an Independent Investment Bank may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event or (c) the modification of any rights to dividends of Shares.

"Fair Market Value" means, with respect to any assets, security, option, warrants or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such investment banks) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded.

"Independent Investment Bank" means an independent investment bank of international repute (acting as expert) selected by the Company and approved by the Trustee.

"Relevant Cash Dividend" means any cash dividend specifically declared by the Company.

"Scrip Dividend" means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Distribution (and for the avoidance of doubt to the extent that no adjustment is to be made under Condition 6(C)(3) in respect of the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or part thereof, but without prejudice to any adjustment required in such circumstances to be made under Condition 6(C)(2)).

"Trading Day" means a day when the Hong Kong Stock Exchange or, as the case may be an Alternative Stock Exchange, is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not have existed when ascertaining any period of dealing days.

D. Conversion Upon Change of Control

If a Change of Control (as defined in Condition 8(D)) shall have occurred, the Company shall give notice of that fact to the Bondholders (the "Change of Control Notice") in accordance with Condition 16 within five days after it becomes aware of such Change of Control. Following the giving of a Change of Control Notice, upon any exercise of Conversion Rights such that the relevant Conversion Date falls within 30 days following a Change of Control, or, if later, 30 days following the date on which the Change of Control Notice is given to Bondholders (such period, the "Change of Control Conversion Period"), the Conversion Price shall be adjusted in accordance with the following formula:

$$NCP = \frac{OCP}{1+(CP \times c/t)}$$

Where:

NCP is the Conversion Price after such adjustment.

OCP is the Conversion Price in force immediately before such adjustment, and for the avoidance of doubt, OCP for the purposes of this Condition 6(D) shall be the Conversion Price applicable on the relevant Conversion Date in respect of any conversion pursuant to this Condition 6(D).

CP is the Conversion Premium of 10% expressed as a fraction.

c is the number of days from and including the first day of the Change of Control Conversion Period to but excluding July 23, 2014.

t is the number of days from and including July 23, 2009 to but excluding July 23, 2014.

provided that the Conversion Price shall not be reduced pursuant to this Condition 6(D) may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value.

E. Undertakings

The Company has undertaken in the Trust Deed, inter alia, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or with the approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give the approval:

(i) it will use its reasonable endeavours (a) to maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the Hong Kong Stock Exchange, and if the Company is unable to obtain or maintain such listing, to use it reasonable endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as from time to time selected by the Company and approved by the Trustee and will forthwith give notice to the Bondholders in accordance with Condition 16 below of the listing or delisting of the Shares (as a class) by any of such stock exchange;

(ii) it will use its reasonable endeavours to maintain the listing of the Bonds on the Hong Kong Stock Exchange;

(iii) it will pay the expenses of the issue of, and all expenses of obtaining listing for, Shares arising on conversion of the Bonds; and

(iv) it will not make any reduction of its issued Shares or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund (except, in each case, as permitted by law);

In the Trust Deed, the Company has also undertaken with the Trustee that so long as any Bond remains outstanding:

(i) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued Shares the full number of Shares liable to be issued on conversion of the Bonds from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Bonds will be duly and validly issued as fully-paid; and

(ii) it will not make any offer, issue, grant or distribute or take any action the effect of which would be to reduce the Conversion Price below the par value of the Shares of the Company,

provided always that the Company shall not be prohibited from purchasing its Shares to the extent permitted by law.

The Company has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

F. Consolidation, Amalgamation or Merger

The Company will not consolidate with, amalgamate with, merge with or into, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (as an entirety or substantially an entirety in one transaction or a series of related transactions) to any entity unless:

(i) the Company shall have notified the Bondholders in accordance with Condition 17;

(ii) the entity (if other than the Company) formed by such amalgamation or consolidation or into which the Company is merged or which acquired or leased such property and assets of the Company shall be a corporation organised and validly existing under the laws of its place of incorporation, and shall, by a trust deed supplemental to the Trust Deed and an agency agreement supplemental to the Agency Agreement and such other undertakings or documents as the Trustee may require, executed and delivered in form and content acceptable to the Trustee, expressly assume all of the obligations of the Company in respect of all of the Bonds and under the Trust Deed and the Agency Agreement and indemnify each Bondholder against any tax, assessment or governmental charge payable by withholding or deduction thereafter imposed on such holder solely as a consequence of such consolidation, amalgamation, merger, sale, conveyance, transfer, lease or other disposal with respect to the payment of principal, premium and interest on the Bonds;

(iii) the supplemental Trust Deed referred to in paragraph (ii) above will ensure that (a) the holder of each Bond then outstanding will have the right (during the period in which such Bond shall be convertible) to convert such Bond into the class and amount of shares and other securities and property receivable upon such consolidation, amalgamation, merger, sale, conveyance, transfer, lease or other disposal by a holder of the number of Shares which would have become liable to be issued upon conversion of such Bond immediately prior to such consolidation, amalgamation, merger, sale, conveyance, transfer, lease or other disposal (such supplemental Trust Deed will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the provisions of Condition 6(C)), and (b) that there shall be no right to exercise a redemption of the Bonds under Condition 8(C) as a result of any change in the domicile or place of incorporation of the Company or of the successor entity not being incorporated in Bermuda, Hong Kong or the PRC; and

(iv) immediately after giving effect to such transaction, no default or event of default (including an Event of Default) shall have occurred and be continuing.

The above provisions of this Condition 6(F) will apply, mutatis mutandis, to any subsequent consolidations, amalgamations, mergers, sales or transfers.

G. Notice of Change in Conversion Price

The Company shall give notice to the Bondholders in accordance with Condition 16 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

7. Payments

A. US Dollar Settlement

All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed from or against the Company shall be payable and settled in US dollars only.

For the purposes of these Conditions, "US Dollar Equivalent" means:

(i) in respect of a Renminbi-denominated amount that, but for this Condition 7(A), would be due under the Bonds, in Renminbi, the Renminbi amount converted into US dollars using the Spot Rate for the relevant Rate Calculation Date; and

(ii) that but for this Condition 7(A), would be due under the Bonds, in HK dollars, the HK dollar amount converted into US dollars using the Spot Rate for the relevant Rate Calculation Date.

For this purpose:

"Business Day" means in relation to Beijing (for determining the US Dollar Equivalent of a Renminbi-denominated amount) or Hong Kong (for determining the US Dollar Equivalent of a HK dollar-denominated amount), a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for general business (including dealings in foreign exchange) in such place and in New York City;

"Rate Calculation Date" means the day which is five Business Days before the due date of the relevant amount under these Conditions;

"Reference Dealers" means four leading dealers engaged in the foreign exchange market of the relevant currency selected by the Principal Agent; and

"Spot Rate", for each Rate Calculation Date, means a rate determined by the Company in good faith as follows:

(a) in respect of the US Dollar Equivalent of a Renminbi-denominated amount, the RMB/US dollar official fixing rate, expressed as the amount of Renminbi per one US dollar, reported by the People's Bank of China which appears on the Reuters Screen "SAEC" Page opposite the symbol "US$CNY" page at or about 9:15 am (Beijing time) on the Rate Calculation Date;

(b) in respect of the US Dollar Equivalent of a HK dollar-denominated amount, the bid exchange rate, expressed as the amount of HK dollars per one US dollar, which appears on the relevant Reuters Honix page at 11:00 a.m. (Hong Kong time) on the Rate Calculation Date;

(c) if no such rate is available under sub-paragraph (a) or (b), the spot rate determined by the Company in good faith on the basis of quotations provided by the Reference Dealers of the specified exchange rate for the Rate Calculation Date as obtained in accordance with the provisions below; and

(d) if fewer than two quotations are provided under sub-paragraph (c), the exchange rate for the Rate Calculation Date as shall be determined by an Independent Investment Bank in good faith.

In determining the spot rate under sub-paragraph (c), the Company will request the Beijing (for determining the US Dollar Equivalent of a Renminbi-denominated amount) or Hong Kong (for determining the US Dollar Equivalent of a HK dollar-denominated amount) office of each of the Reference Dealers to provide a quotation of what the specified screen rate would have been had it been published, reported or available for the Rate Calculation Date, based upon each Reference Dealer's experience in the foreign exchange market for Renminbi or HK dollars (as applicable) and general activity in such market on the Rate Calculation Date. The quotations used to determine the Spot Rate for a Rate Calculation Date will be determined in each case for such Rate Calculation Date, and will be requested at 9:15 a.m. (Beijing time) or11:00 a.m. (Hong Kong time), as applicable, on such Rate Calculation Date or as soon as practicable after it is determined that the specified screen rate was not available.

If four quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the rates, without regard to the rates having the highest and lowest value. For this purpose, if more than one quotation has the same highest value or lowest value, then the rate of only one of such quotations shall be disregarded. If two or three quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the rates provided.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7, whether by the Reference Dealers (or any of them), the Company or the Independent Investment Bank, will (in the absence of willful default, bad faith or manifest error) be binding on the Company, the Trustee, the Agents and all Bondholders.

B. Principal, Premium and Interest

Payment of principal, premium and interest due other than on an Interest Payment Date, will be made by transfer to the registered account of the Bondholder or by US dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder in accordance with Condition 16 if it does not have a registered account. Payment of principal and premium will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

Interest on Bonds due on an Interest Payment Date will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the fifteenth day before the due date for the payment of interest (the "Interest Record Date"). Payments of interest on each Bond will be made by transfer to the registered account of the Bondholder or by US dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder if it does not have a registered account.

References in these Conditions, the Trust Deed and the Agency Agreement to principal and premium in respect of any Bond shall, where the context so permits, be deemed to include a reference to any premium payable thereon.

C. Registered Accounts

For the purposes of this Condition, a Bondholder's registered account means the US dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the second business day (as defined below) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

D. Fiscal Laws

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

E. Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value on the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

F. Default Interest and Delay In Payment

If the Company fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 10% per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year.

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

G. Business Day

In this Condition, "business day" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in Hong Kong, London and New York and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

8. Redemption, Purchase and Cancellation

A. Maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Bond at an amount equal to the US Dollar Equivalent of 100% of its principal amount together with accrued interest, on July 23, 2014 (the "Maturity Date"). The Company may not redeem the Bonds at its option prior to that date except as provided in Condition 8(B) or Condition 8(C) below (but without prejudice to Condition 9).

B. Redemption at the Option of the Company

The Company may at any time, having given not less than 30 nor more than 60 days' notice to the Bondholders, the Trustee and the Principal Agent (which notice will be irrevocable), redeem all and not some only of the Bonds at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount plus unpaid interest accrued to but excluding the date of redemption, if at least 90% in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

Redemption under this condition 8(B) may not occur within 30 days of the end of a Closed Period but otherwise may occur when the Conversion Right is expressed in these Conditions to be exercisable.

C. Redemption for Taxation Reasons

(i) At any time the Company may, having given not less than 30 nor more than 60 days' notice (a "Tax Redemption Notice") to the Bondholders in accordance with Condition 16 (which notice shall be irrevocable) redeem all, and not some only, of the Bonds at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount plus unpaid interest accrued to but excluding the redemption date (the "Tax Redemption Date"), if (i) the Company satisfies the Trustee immediately prior to the giving of such notice that the Company has or will become obliged to pay additional amounts as referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of any Relevant Tax Jurisdiction (as defined in Condition 9), or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after June 29, 2009, and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee (a) a certificate signed by two Directors of the Company stating that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and (b) an opinion of independent legal or tax advisors of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Bondholders. Upon the expiry of any such notice, the Company will be bound to redeem the Bonds at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount plus unpaid interest accrued to but excluding the redemption date, provided that redemption may not occur within 30 days of the end of a Closed Period, but otherwise may occur when the Conversion Right is expressed in these Conditions to be exercisable.

(ii) If the Company gives a Tax Redemption Notice pursuant to Condition 8(C)(i), each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal, premium or interest to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction or withholding of any tax required to be deducted or withheld. To exercise a right pursuant to this Condition 8(C)(ii), the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent (the "Tax Option Exercise Notice") together with the Certificate evidencing the Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

D. Redemption for Delisting or Change of Control

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder's option, to require the Company to redeem all or some only of that holder's Bonds on the Relevant Event Redemption Date (as defined below) at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount, together with unpaid interest accrued to but excluding the redemption date. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (the "Relevant Event Redemption Notice") together with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Company in accordance with Condition 16. The "Relevant Event Redemption Date" shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Company consents to such withdrawal) and the Company shall redeem the Bonds the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event that could lead to the occurrence of a Relevant Event has occurred.

The Company shall give notice to Bondholders in accordance with Condition 16 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition and shall give brief details of the Relevant Event.

A "Relevant Event" occurs:

(i) when the Shares cease to be listed or admitted to trading on the Hong Kong Stock Exchange; or

(ii) when there is a Change of Control.

For the purposes of this Condition 8(D):

"Control" means the acquisition or control of more than 50% of the voting rights or share capital of the issued share capital of the Company or the right to appoint and/or remove all or the majority of the members of the Company's Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

a "Change of Control" occurs when:

(i) any Person or Persons acting together acquires Control of the Company if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Company on the Issue Date;

(ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company's assets to any other Person.

"Person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

E. Redemption at the Option of the Bondholders

On July 23, 2012 (the "Put Option Date"), the holder of each Bond will have the right at such holder's option, to require the Company to redeem all or some only of the Bonds of such holder on the Put Option Date at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount, together with unpaid interest accrued to but excluding the redemption date. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent ("Put Exercise Notice") together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 30 days prior to the Put Option Date.

A Put Exercise Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Company consents to such withdrawal) and the Company shall redeem the Bonds the subject of Put Exercise Notices delivered as aforesaid on the Put Option Date.

F. Purchases

The Company or any of its Subsidiaries may at any time and from time to time purchase Bonds at any price in the open market or otherwise.

G. Cancellation

All Bonds which are redeemed, converted or purchased by the Company or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

H. Redemption Notices

All notices to Bondholders given by or on behalf of the Company pursuant to Condition 8(B) or (C) will specify the Conversion Price as at the date of the relevant notice, the Conversion Period, the Closing Price of the Shares as at the latest practicable date prior to the publication of the notice, the applicable redemption amount and the US

Dollar Equivalent thereof the date for redemption, the manner in which redemption will be effected and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

9. Taxation

All payments made by the Company under or in respect of the Bonds, the Trust Deed or the Agency Agreement will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Bermuda, Hong Kong, the PRC, any jurisdiction where the Company is organised or otherwise considered by a taxing authority to be a resident for tax purposes, any jurisdiction from or through which the Company makes such payments, or any authority thereof or therein having power to tax (each, a "Relevant Tax Jurisdiction"), unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, the Company will pay such additional amounts as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such additional amount shall be payable in respect of any Bond:

(i) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Relevant Tax Jurisdiction otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond;

(ii) (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days,

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26 -27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) presented for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

For the purposes hereof, "relevant date" means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

References in these Conditions to principal, premium (if any) or interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10. Events of Default

A. Events of Default

The Trustee at its sole discretion may, and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or secured by the holders to its satisfaction), give notice to the Company that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at the US Dollar Equivalent of 100% of their principal amount together with unpaid interest accrued to but excluding the date of repayment (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:

(i) a default is made in the payment of any principal or interest due in respect of the Bonds which is not remedied within three days;

(ii) any failure by the Company to deliver any Shares as and when the Shares are required to be delivered following conversion of Bonds, which failure is not remedied within three days;

(iii) the Company does not perform or comply with one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee;

(iv) the Company or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any material part of (or of a particular type of) the debts of the Company or any of its Subsidiaries; an administrator or liquidator of the Company or any of its Subsidiaries or the whole or any material part of the assets and turnover of the Company or any of its Subsidiaries is appointed (or application for any such appointment is made);

(v) (a) any other present or future indebtedness (whether actual or contingent) of the Company or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes, or becomes capable of being declared, due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Company or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (v) have occurred equals or exceeds US$5 million or its equivalent in any other currency on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantees or indemnity;

(vi) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against all or any material part of the property, assets or turnover of the Company or any of its Subsidiaries and is not discharged or stayed within 30 days;

(vii) an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Company or any of its Subsidiaries (except for a members' voluntary solvent winding-up), or the Company or any of its Subsidiaries ceases or threatens to cease to carry on or dispose of (whether in one transaction or a series of transactions) all or a material part of its business or operations except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by an Extraordinary Resolution of the Bondholders, or (b) in the case of any Subsidiary whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Company or one of its wholly owned Subsidiaries;

(viii) an encumbrancer takes possession or an administrative or other receiver, manager, administrator or other similar officer is appointed, of the whole or a material part of the property, assets or turnover of the Company or any of its Subsidiaries (as the case may be) and is not discharged within 30 days;

(ix) (a) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company, any of its Subsidiaries; or (b) the Company or any of its Subsidiaries is prevented from exercising normal control over all or a material part of its property, assets and turnover;

(x) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (b) to ensure that those obligations are legally binding and enforceable and (c) to make the Bonds and the Trust Deed admissible in evidence in the courts of Bermuda, Hong Kong or England is not taken, fulfilled or done;

(xi) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or

(xii) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

B. Conversion Right after Default

Notwithstanding receipt of any payment after the acceleration of the Bonds, a Bondholder may exercise its Conversion Right by depositing a Conversion Notice with a Conversion Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in Condition 10(A) (at which time the Company will notify the Bondholders of the number of Shares per Bond to be delivered upon conversion, assuming all the then outstanding Bonds are converted) to and including the 30th business day after such payment.

If any converting Bondholder deposits a Conversion Notice pursuant to this Condition 10(B) on the business day prior to, or during, a Closed Period, the Bondholder's Conversion Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Conversion Date, for the purposes of such Bondholder's exercise of its Conversion Right pursuant to this Condition 10(B).

If the Conversion Right attached to any Bond is exercised pursuant to this Condition 10(B), the Company will deliver Shares (which number will be disclosed to such Bondholder as soon as practicable after the Conversion Notice is given) in accordance with the Conditions, except that the Company shall have twelve business days before it is required to register the converting Bondholder (or its designee) in its register of members as the owner of the number of Shares to be delivered pursuant to this Condition.

11. Prescription

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years (in the case of principal) and six years (in the case of interest, default interest or premium (if any)) from the relevant date (as defined in Condition 9) in respect thereof.

12. Enforcement

At any time after the Bonds have become due and repayable, the Trustee may, at its sole discretion and without further notice, take such proceedings against the Company as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed, but it will not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (b) it shall have been indemnified and/or secured to its satisfaction. No Bondholder will be entitled to proceed directly against the Company unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

13. Meetings of Bondholders, Modification and Waiver

A. Meetings

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50% in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the due date for any payment in respect of the Bonds or the date on which interest is payable to them, (ii) to reduce or cancel the amount of principal, premium, interest or default interest, Equivalent Amount or US Dollar Equivalent payable in respect of the Bonds or changing the method of calculation of the US Dollar Equivalent, (iii) to change the currency of payment of the Bonds, (iv) to modify (except by a unilateral and unconditional reduction in the Conversion Price) or cancel the Conversion Rights or the put options of the Bondholders in Condition 8, or (v) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 66%, or at any adjourned such meeting not less than 33%, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

*The Trust Deed defines an "**Extraordinary Resolution**" as a resolution passed at a meeting of Bondholders duly convened and held in accordance with the provisions of the Trust Deed by a majority consisting of not less than three-quarters of the votes cast.*

B. Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except as mentioned in clauses (i) to (v) of Condition 13(A) above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Trust Deed or the Agency Agreement which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Company to the Bondholders as soon as practicable thereafter.

C. Interests of Bondholders

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation or waiver) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company, or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

In the event of the passing of an Extraordinary Resolution in accordance with Condition 13(A) or a modification, waiver or authorisation in accordance with Condition 13(B), the Company will procure that the Bondholders be notified in accordance with Condition 16.

D. Certificates/Reports

Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of these Conditions or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall, in absence of manifest error, be conclusive and binding on all parties) notwithstanding that such certificate or report and/or engagement letter or other document entered into by the Trustee and/or the Company in connection therewith contains a monetary or other limit on the liability of the relevant expert or person in respect thereof.

14. Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company and such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. Further Issues

The Company may from time to time, without the consent of the Bondholders, create and issue further Bonds having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the Bonds. Such further Bonds may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed.

16. Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar or published in a leading newspaper having general circulation in Asia (which is expected to be the Wall Street Journal Asia Edition). Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the alternative clearing system (as defined in the Global Certificate), notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

17. Currency Indemnity

A. Currency of Account and Payment

US dollars (the "**Contractual Currency**") is the sole currency of account and payment for all sums payable by the Company under or in connection with the Bonds and the Trust Deed, including damages.

B. Extent of Discharge

An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Company or otherwise), by the Trustee or any Bondholder in respect of any sum expressed to be due to it from the Company will only discharge the Company to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

C. Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under the Bonds or the Trust Deed, the Company will indemnify the recipient against any loss sustained by it as a result. In any event, the Company will indemnify the recipient against the cost of making any such purchase.

D. *Indemnity Separate*

The indemnity in this Condition 17 constitutes a separate and independent obligation from the other obligations under the Bonds and the Trust Deed, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and/or any Bondholder and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Bonds and/or the Trust Deed or any other judgment or order.

18. Agents

The names of the initial Agents and the Registrar and their specified offices are set out below. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Company will at all times maintain (a) a Principal Agent, (b) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Directive 2003/48/EC or any other European Union Directive implementing the provisions of the ECOFIN Council Meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform, to such Directive, and (c) a Registrar which will maintain the register of Bondholders outside Hong Kong and the United Kingdom. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Company to the Bondholders and in any event not less than 45 days' notice will be given.

19. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee, for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction, and to be paid its fees, costs and expenses in priority to the claims of the Bondholders. The Trustee is entitled to enter into business transactions with the Company and any entity related to the Company without accounting for any profit.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Bondholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred.

The Trustee is not liable for any failure to monitor compliance by the Company with the Conditions (including Conditions 4 and 10).

20. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999 except to the extent expressly provided for herein or therein.

21. Governing Law and Submission to Jurisdiction

The Bonds, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds, the Company has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England and in relation thereto, has appointed an agent for service of process in the City of London.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions that apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions.

Exchange

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive certificates if either Euroclear or Clearstream (or any other clearing system as shall have been designated by us and approved by the Trustee on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or an Event of Default (as defined in the Conditions) occurs.

In such circumstances, we will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as we and the Registrar may require to complete, execute and deliver such individual definitive certificates.

Meetings

The holder of the Global Certificate or any proxy or representative appointed by it will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each RMB100,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Bond by us following its redemption, conversion or purchase will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee's powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, without being obligated to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Bonds and may consider such interests as if such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

Conversion

Subject to the requirements of Euroclear and Clearstream or any alternative clearing system, the Conversion Right attaching to a Bond in respect of which the Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in the Bond.

Deposit of the Global Certificate with the Principal Agent together with the relevant Conversion Notice will not be required. In such a case, the delivery of the Conversion Notice will constitute or be deemed to constitute confirmation by the beneficial owner of the Bonds to be converted and that the information and representations in the Conversion Notice are true and accurate on the date of delivery. The exercise of the Conversion Right will be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

Payment

Payments of principal, premium and interest in respect of Bonds represented by the Global Certificate will be made without presentation or, if no further payment is to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as may be notified to the Bondholders for such purpose.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an alternative clearing system, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the terms and conditions of the Bonds.

Put Options

The Bondholders' put options in Condition 8(D) and Condition 8(E) may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise (if required) within the time limits specified in these conditions.

Bondholders' Tax Option

The option of the Bondholders not to have the Bonds redeemed as provided in Condition 8(C) must be exercised by the presentation to any Paying Agent, or to the order of a Paying Agent, of a duly completed Bondholder's exercise notice within the time limits set out in and containing the information required by Condition 8(C).

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any alternative clearing system) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any alternative clearing system) and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued will be recognised as the beneficiaries of the trusts set out in the Trust Deed, to the extent of the principal amounts of their interests in the Bonds set out in the certificate of the holder, as if they were themselves the holders of the Bonds in such principal amounts.

CLEARANCE AND SETTLEMENT

Custodial and depository links have been established with Euroclear and Clearstream to facilitate the initial issue of the Bonds and transfers of the Bonds associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal, premium and interest with respect to book-entry interests in the Bonds held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in the Bonds held through Euroclear and Clearstream will be evidenced by the Global Certificate, registered in the name of a nominee of the common depositary of Euroclear and Clearstream. The Global Certificate will be held by a common depository for Euroclear and Clearstream. Beneficial ownership in Bonds will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream. The aggregate holdings of book-entry interests in the Bonds in Euroclear and Clearstream will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Bonds, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Bonds. The Paying Agent will be responsible for ensuring that payments received by it from us for holders of interests in the Bonds holding through Euroclear and Clearstream are credited to Euroclear or Clearstream as the case may be.

We will not impose any fees in respect of the Bonds. However, holders of book-entry interest in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

Global Clearance and Settlement Procedures

Initial Settlement

Interests in the Bonds will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Bonds through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Bonds will be credited to Euroclear participant securities clearance accounts on the business day following the closing date against payment (for value the closing date of this offering), and to Clearstream participant securities custody accounts on the closing date against payment in same-day funds.

Secondary Market Trading

Secondary market sales of book-entry interests in the Bonds held through Euroclear or Clearstream to purchasers of book-entry interests in the Bonds through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional participants.

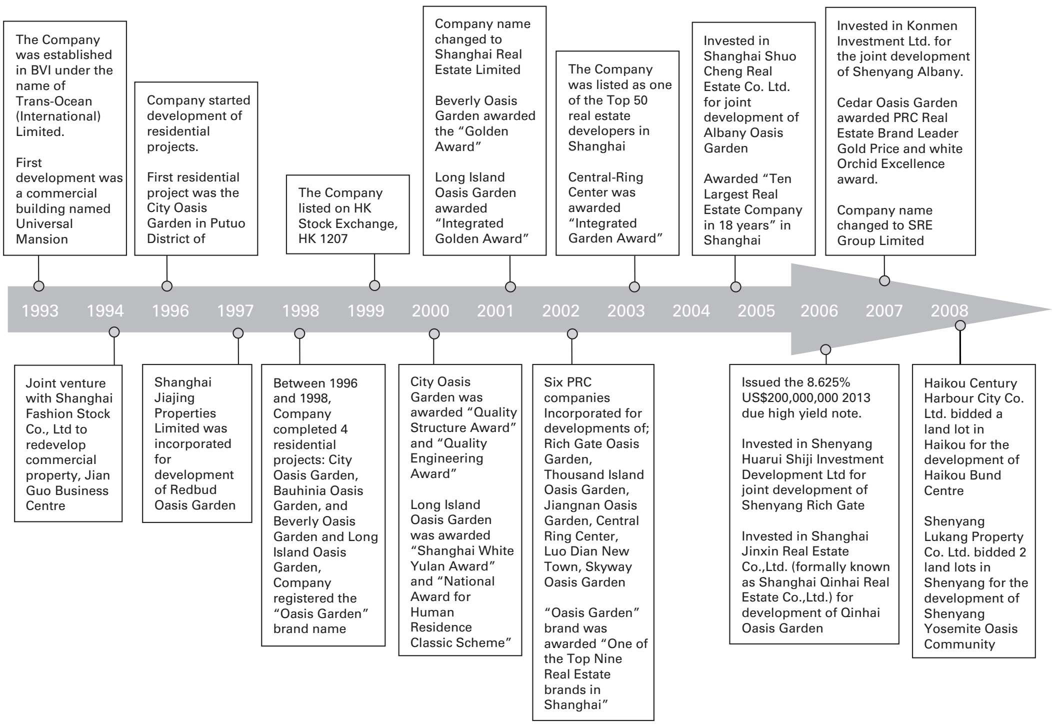
General

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the transfers of interests in the Bonds among participants of Euroclear and Clearstream none of Euroclear or Clearstream is under any obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. We and the Trustee and the Agents will not be responsible for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations.

THE GROUP

History and Development

The diagram below sets forth our history in brief:



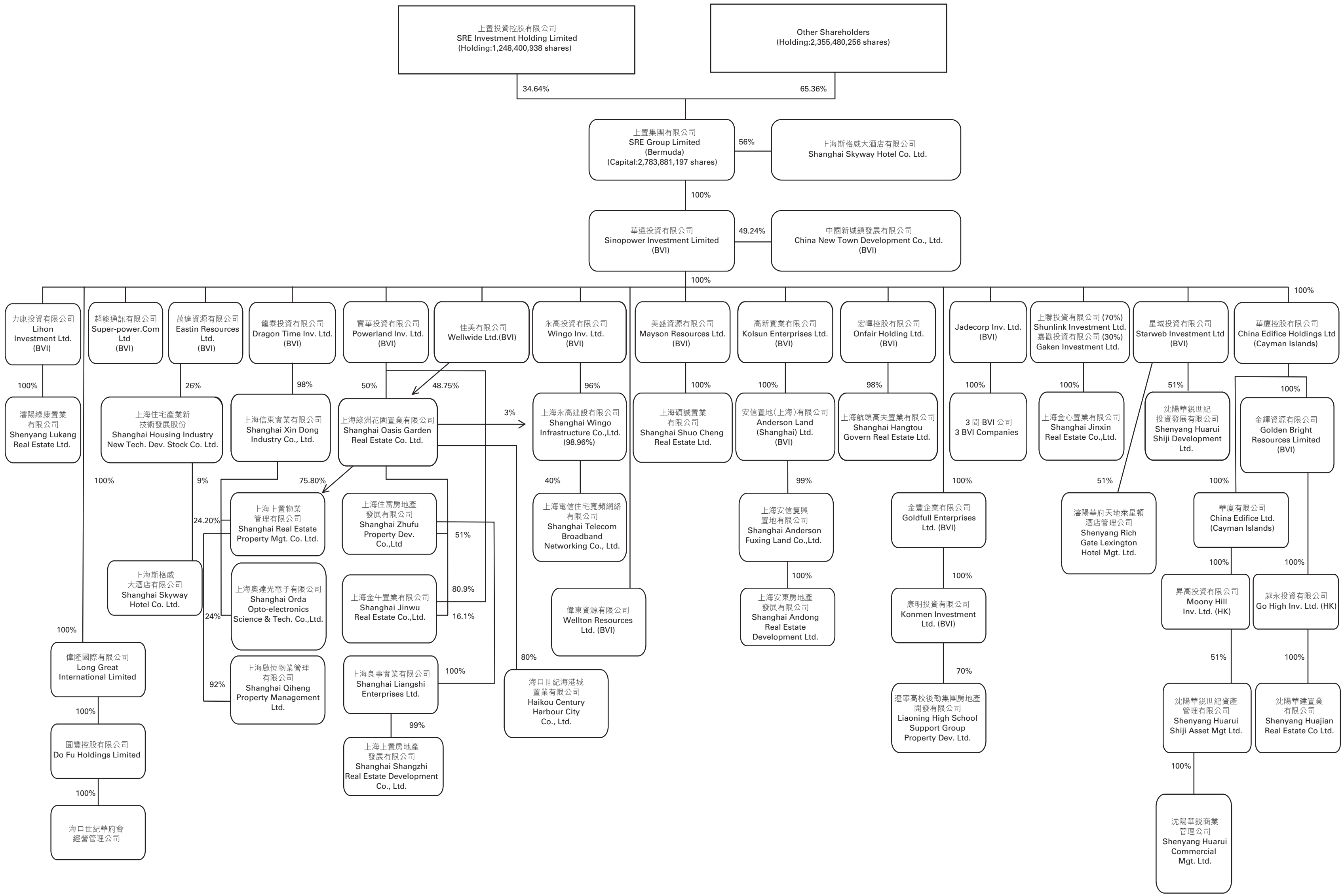
We commenced operations in 1993 as an office building developer when the Company was incorporated in the BVI under the name of Trans-Ocean (International) Limited. We were one of the earliest participants in the Shanghai real estate industry. Our first development in 1993 was a commercial building named Universal Mansion, which was the first skyscraper in downtown Shanghai. We then shifted our focus to develop residential properties. Our first residential project in 1996 was the City Oasis Garden in the Putuo district of Shanghai. Since 1996, we have completed eight development projects, namely City Oasis Garden, Redbud Oasis Garden (renamed Bauhinia Oasis Garden in 1998), Shanghai Rich Gate, Skyway Oasis Garden, Beverly Oasis Garden, Long Island Oasis Garden, Thousand Islands Oasis Garden and Jiangnan Oasis Garden, and several phases of four other development projects, namely Centra-Ring Center, Albany Oasis Garden, Shenyang Albany and Shenyang Rich Gate. Our key brand name, "Oasis Garden", was registered as a trademark with the PRC Trademark Office in 1999. Since 1999, the Shares of the Company has been listed on the Hong Kong Stock Exchange.

In 2001, the Company underwent a name change to become Shanghai Real Estate Limited and in 2007, the Company's name changed to SRE Group Limited.

Corporate Structure

The Company is an investment holding company, which conducts its business through its operating subsidiaries and associated companies. The Company holds its property development and investment interests through intermediate holding companies incorporated in the BVI. Each of these intermediate holding companies participates in PRC property development (which includes hotel, retail and commercial projects) through project companies, all of which are incorporated in the PRC and of which, either we are the majority stakeholder or are responsible for the day-to-day operation.

The following chart sets forth the Group's organisation structure as at July 9, 2009:



Overview

We are a large property developer in China, focusing primarily on developing high quality, large-scale residential and commercial properties in Shanghai as well as cities in the Liaoning and Hainan provinces. We have historically focused on the development of middle to high-end residential and commercial properties. Furthermore, our focus has traditionally been property development in Shanghai. Since 2006, we have expanded our operations into Shenyang, the capital city of Liaoning Province, and Haikou, the capital city of Hainan Province, among others.

We currently derive the bulk of our revenue from the sale of properties that we have developed. In addition, we also derive a portion of our revenue from the operation of two hotels, the leasing of retail and office properties, the management of properties developed by us and certain infrastructure-related services that we perform for our property development projects. For the year ended December 31, 2008, 93.9%, 2.6% and 1.8% of our total revenue (prior to deduction of sales tax) was generated by the sale of development properties, hotel operation and property leasing, respectively.

Our residential projects are typically large-scale developments in prime locations within cities, and these projects typically incorporate a variety of comprehensive amenities and public facilities to meet the needs of a community. We usually operate and manage such amenities and public facilities. Due to the scale of our projects, we typically develop them in several phases over a number of years.

With over 16 years of experience in the PRC's property industry, our general business strategy is to pursue new projects that are consistent with the latest urban development planning policies in each of our regions of operation. We believe that our brand names, "Oasis Garden", "Rich Gate", "Albany", "Skyway" and "Lake Malaren", are well-known among property purchasers in Shanghai, Shenyang and Haikou. We have received a number of industry awards and prizes over the years. Our key brand name, "Oasis Garden", was awarded the 2007 PRC real estate brand leader by the Accountability Committee of the China Marketing Association, Shanghai Ecological Economics Association and Real Estate Research Center of Fudan University. Furthermore, we were ranked in the top 100 property management companies in the PRC in 2007 by China Real Estate Association and Chief Executive China, and we received the "Excellent Member in the Property Management Industry" award from the Shanghai Property Management Industry Association in the same year. Our Cedar Oasis Garden project was ranked as one of the most popular projects in 2008 by soufun.com, a popular real estate on-line search engine.

We own 14 property projects that either have been completed or are under development, of which ten property developments are located in Shanghai, three in Shenyang and one in Haikou. The total gross floor area of our 14 property development projects, if fully developed, is expected to amount to approximately 4.6 million sq.m. In addition, we currently own a 49.24% interest in China New Town Development Company Limited, or CNTD, a Singapore-listed company whose primary focus is the planning and development of large-scale new town projects located in the suburban areas at major cities in the PRC. CNTD's registered office is located at 8B Times Tower, 319-407 Jaffe Road, Wanchai, Hong Kong SAR, China.

The Shares of the Company have been listed on the main board of the Hong Kong Stock Exchange under stock code 1207 since 1999.

Competitive Strengths

We believe our key strengths are as follows:

Clear geographic focus and in-depth local knowledge.

We are a leading property developer in Shanghai. We have been engaged in property development in Shanghai for more than 16 years, since the early stages of commercial housing reform in the PRC. Our management team has extensive experience in the property development, property investment and construction industries in the PRC and has accumulated substantial knowledge of the PRC property market. Our in-depth local knowledge helps us to identify market trends and the preferences of our target customers as well as locating fast growing areas at their early stage of development but with significant development potential. This in turn has allowed us to acquire land in such areas at an early stage at relatively low costs. Specifically, we have traditionally focused on middle to high-end residential and commercial development projects in Shanghai, but as a result of our local knowledge and expertise, we identified and acquired development opportunities in Shenyang and Haikou, both of which are provincial capitals and important regional centers in China. We expect that our operations will continue to benefit from our in-depth local knowledge and experience.

High-quality development projects with well-known brands.

We believe the quality of our property developments has enabled us to achieve a strong market position and a recognized brand name in the PRC, particularly in the markets in which we operate. Furthermore, we believe our property development projects are generally viewed in the market as high-quality developments. Over the years, we have received many industry awards in recognition of the quality of our projects. For example, our Cedar Oasis Garden project was awarded "Outstanding Shanghai Property Project" and "Landmark Shanghai Property Project" in 2008 by soufun.com, and our Central-Ring Centre project was awarded the Gold Award for the Most Popular Project in Shanghai in 2007 by the Accountability Committee of the China Marketing Association, Shanghai Ecological Economics Association and Real Estate Research Center of Fudan University. We believe that our recognized brand names increase sales and enable us to achieve our sales targets.

Carefully chosen, low cost and high quality land bank.

We believe that a sizable and quality land bank is one of the most important resources for a property developer. One of the key factors in our success has been our ability to acquire sites at competitive prices at carefully chosen locations. We were able to acquire land sites at relatively low costs because we acquired most of our land sites through private acquisitions (often through acquiring companies that owned the land use rights of the relevant sites) and not through public auctions. We select land sites for acquisition based on their locations as well as the current and future urban development plans around such locations. Most land slots in our land bank are located in fast growing areas which we believe present significant long-term development potential. As at May 31, 2009, we had a property development portfolio which, if fully developed, is expected to amount to a total gross floor area of approximately 4.6 million sq.m. Our sizable land bank enables us to maintain a significant and diversified portfolio of properties under development, which enhances our ability to generate a stable and growing cash flow from property sales.

Experienced senior management team with proven track record.

Our senior management team has extensive knowledge and understanding of the property markets in the PRC generally and specifically in Shanghai, Shenyang and Haikou. Our key executives, including our chairman, Mr. Shi Jian, have led the growth of our business since its inception in 1993. A number of our senior management members have been in the property industry for more than ten years. This has enabled us to understand the market trends, the preferences of the target clientele, and the latest urban development plans of the relevant areas, identify land plots with the most valuable development potentials and acquire land use rights for sites at relatively low costs. To ensure that the senior management team is always at the forefront of the latest developments in the real estate market, the senior management team members are periodically sent for specialist training.

Experience with large-scale multi-phase developments.

We engage primarily in the development of large-scale property projects consisting of multiple phases. We believe that undertaking large-scale multi-phase developments allows us to benefit from economies of scale, for example, with respect to our ability to leverage investments in common facilities, as well as negotiating contracts with service providers and suppliers. We believe that our large-scale multi-phase properties, as compared to smaller single-phase developments, are generally able to provide better facilities and are more attractive to potential buyers. Furthermore, the phase-by-phase development model also provides us with the opportunity to monitor the level of market acceptance at each phase and enables us to adjust our business strategy and related property designs to better satisfy market demand accordingly. Moreover, the phase-by-phase development generally allows us to achieve higher selling prices in later phases as the overall living experience improves along with the maturity of our projects.

Diverse customer base and quality after-sale customer services.

We market our properties to a broad range of customer groups including entrepreneurs, professionals, government employees and young families. We also market our properties to overseas customers, who purchase our properties primarily for vacation or investment purposes. We believe we have built a reputation as a provider of quality properties and comprehensive after-sales and property management services. Our property management subsidiaries also provide professional property consulting advice and extensive after-sales services, such as rental agency, security management, maintenance and landscaping services, to our purchasers. We also organize customer events and product exhibitions periodically to improve customer relations and enhance our customers' satisfaction in our products and services. We believe that these measures of customer relations will increase the likelihood of referrals by our existing customers.

Wide product mix and growing long-term investment portfolio

We provide a wide mix of property products, including residential apartments, luxury villas, retail and commercial properties, offices and hotels. We endeavor to balance the composition of commercial and residential portions of our development projects according to the location and feature of different development sites. A number of our projects combine hotels, offices, parks, shopping malls, clubs and apartments in the same complex, a concept that we sometimes referred to as "HOPSCA". We believe that many residential and commercial purchasers of property units are attracted to the HOPSCA concept. Furthermore, our wide product mix has enabled us to reduce our reliance on either the residential or the commercial sector, and this in turn allows us to lower concentration risks and reduce our exposure to the fluctuations in any individual market.

Business Strategies

We intend to continue to focus on property developments in Shanghai, Shenyang and Haikou as well as to pursue strategic business opportunities in other PRC markets, as and when suitable opportunities arise. We intend to achieve our overall objectives by pursuing the following strategies:

Maintain a clear geographic focus and strengthen our position in the middle- to high-end commercial and residential property market.

We intend to continue to focus on the middle- to high-end commercial and residential property market in Shanghai, Shenyang and Haikou, as we believe that the current economic growth in these cities will sustain a relatively high demand for such property types. In addition, we may pursue expansions in other major cities in the PRC when suitable opportunities arise and the market conditions suit. We believe that middle- to high-end commercial and residential property projects will command a higher return, which in turn may result in stronger profit margins.

Leverage on our brands.

We currently use the "Oasis Garden", "Rich Gate", "Albany", "Skyway" and "Lake Malaren" brand names to promote our developments. We believe these brands are well-known among property purchasers in the markets that we operate. We intend to take advantage of opportunities arising from market integration to acquire, mostly through mergers and acquisitions, new development projects. We will complete the development of such projects to our high specifications and will then re-brand these projects with one or more of our brands, thereby enhancing the value of such projects.

Increase recurring income from our portfolio of investment properties.

We intend to increase the size of our property investment business, which consists of the leasing of retail and office premises, hotel operations and property management. We believe our property investment business allows us to increase the certainty of recurring income. Our goal is to have our investment properties contribute 10-20% of our net income to reduce the susceptibility of our revenue to the fluctuations of property prices. We currently have arrangement with two international hotel management companies to manage the two hotels we built. As part of our efforts to expand our repertoire of services, we also intend, when opportunities arise, to cooperate with internationally reputable property management companies to operate and run certain of our properties which we may choose to retain for rental income and/or capital appreciation. We believe that such a strategy will enhance our competitive strategy and confer on us greater recognition in the PRC as a leading property developer.

Careful selection of new sites for our land bank.

We intend to increase our land bank and increase our portfolio of projects in a prudent and selective manner, mainly through acquisitions of controlling interests in existing companies with well-sited land plots. We believe that this strategy will help us to acquire quality land at more economical prices than bidding in open tenders.

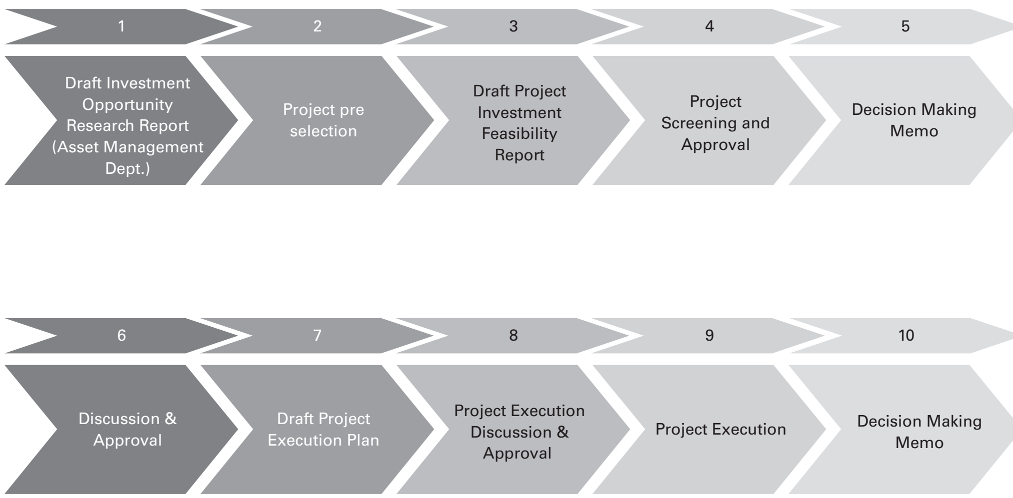
Property Development

We currently have 14 property development projects, of which ten are located in Shanghai, three in Shenyang and one in Haikou. Revenue from our sale of development properties amounted to approximately HK$3,395 million and HK$3,706 million, representing 95.9% and 93.9% of our total revenue (prior to deduction of sales tax), for the years ended December 31, 2007 and 2008, respectively.

We generally seek to invest only in projects in which we have a majority interest (and thereby control). Regardless of the size of the interest we hold in each of our development projects, we always seek to have day-to-day management and control over the running of each project by virtue of us being the single largest shareholder of each project.

Property development procedure

The following diagram illustrates our property development procedure:



The typical development procedure for vacant land is approximately 18 to 30 months, whereas the development cycle for urban property projects can be longer, particularly for project sites that are not vacant at the time of acquisition. Depending on the size of a development and other factors, the entire development period may be substantially longer. As we focus on large-scale property developments, our projects are usually developed in phases over a number of years. The pace of our property development is determined by the prevailing prices of properties, sales volume and the level of our land reserves. Consequently, we may obtain multiple governmental approvals and permits, including land use right certificates, from relevant authorities for a group of property developments that we view as a single property development for business purposes.

The relevant authorities will not generally issue land use right certificates in respect of a land slot until the construction land use approval and the land planning permit have been obtained by the developer, the land premium is paid in full and the resettlement process is completed. As a result, in order to adjust to the pace of development, the land for a property development may be divided into one or more parcels for which multiple land use right certificates were granted at different stages of development. Before the relevant project company can deliver these properties to its purchasers, it needs to obtain the general property ownership certificates evidencing both the land use rights and the ownership interests in the buildings erected on the land.

We design and develop the land granted to us according to the preliminary development plan, including the total gross floor area that may be built, in the land grant contracts. The actual gross floor area constructed, however, may exceed the total gross floor area authorised in the land grant contracts, due to factors such as subsequent planning, design adjustments and urban development plans newly announced by the relevant authorities.

We are actively involved in all of the different stages of the development process in order to control the costs, schedule and quality of our projects. Except for the construction work which is contracted to third-party construction companies, our project companies oversee and largely perform all aspects of their development operations, including the selection and purchase of sites, the preparation of feasibility studies, the obtaining of government approvals for development, the supervision of construction and the marketing of completed projects.

We classify our property development projects into the following three categories:

- *completed properties*, comprising each property held for sale and each investment property for which we have completed construction and received a construction works acceptance and compliance certificate from the relevant governmental authorities;
- *properties under development*, comprising each property for which we hold a land use rights certificate and a construction works commencement permit or a temporary construction works commencement reply for a major project; and
- *properties for future development*, comprising (i) properties for which we have obtained land use right certificates but have not received a construction works commencement permit and (ii) properties for which we have not obtained land use right certificates but have entered into a land grant contract or obtained confirmation that we have been selected as the winner of the public listing-for-sale process.

Our classification of projects reflects the basis on which we operate our business and may differ from classifications employed for other purposes or by other developers. Each property project or project phase may involve multiple land use right certificates, construction permits, pre-sale permits, completion certificates and other permits and certificates which may be issued at different stages of their developments.

The following table sets forth certain information of our completed properties as at May 31, 2009.

Project	Phase	Types of Products	Location	Interest Attributable to Us	Completion Date	Total GFA (sq.m.)	Total salable GFA (sq.m.)	Remaining GFA (sq.m.)
Albany Oasis Garden	Phase I	Residential, retail and facilities	Shanghai	99.0%	August 2007	75,000	73,599	2,624
Shanghai Rich Gate	Phase I	Residential and retail	Shanghai	99.0%	March 2006	73,889	47,146	500
		Retail-above ground	Shanghai	100.0%	March 2005	6,315	6,315	6,315
		Retail-underground	Shanghai	100.0%	March 2005	5,015	5,015	5,015
Beverly Oasis Garden	Phase III	Residential	Shanghai	99.0%	August 2007	16,201	16,201	3,248

Project	Phase	Types of Products	Location	Interest Attributable to Us	Completion Date	Total GFA (sq.m.)	Total salable GFA (sq.m.)	Remaining GFA (sq.m.)
Cedar Island Oasis Garden	Phase I	Retail	Shanghai	99.0%	August 2007	3,200	3,200	3,200
Jiangnan Oasis Garden	Phase II	Residential	Shanghai	51.0%	December 2007	29,734	26,356	2,250
Thousand Island Oasis Garden	Phase II	Residential	Shanghai	98.0%	November 2005	38,267	38,267	577
	Phase III	Residential	Shanghai	98.0%	November 2007	52,230	52,230	2,119
Shenyang Rich Gate	Phase I	Residential and Office	Shenyang	51.0%	February 2008	99,037	99,037	19,336
	Phase I	Retail and hotel	Shenyang	51.0%	February 2008	301,228	301,228	301,228
Central-Ring Centre	Phase III	Office, retail and facilities	Shanghai	96.7%	June 2008	197,616	123,585	123,585
Shenyang Albany		Residential, office, retail and facilities	Shenyang	70.0%	December 2007	333,394	290,700	15,309
Pullman Shanghai Skyway Hotel		Hotel	Shanghai	56.0%	April 2007	86,129	86,129	86,129

The following table sets forth certain information of our properties under development as at May 31, 2009.

Project	Phase	Types of Products	Location	Interest Attributable to Us	Construction Commencement Date	Expected Completion Date	Total GFA (sq.m.)	Total Salable GFA (sq.m.)	Remaining GFA (sq.m.)
Lake Malaren Garden	Phase I	Residential and Retail	Shanghai	100.0%	August 2008	September 2011	131,253	86,974	86,974
Albany Oasis Garden	Phase II	Residential, retail and facilities	Shanghai	99.0%	July 2008	October 2010	50,772	49,914	49,914
Cedar Island Oasis Garden	Phase II	Residential	Shanghai	99.0%	March 2007	July 2009	61,063	61,063	61,063
	Phase III	Residential	Shanghai	99.0%	March 2007	October 2009	125,519	125,519	125,519
	Garage	Facilities	Shanghai	99.0%	March 2007	October 2009	2,095	2,095	2,095
Haikou Bund Centre	Phase I	Residential, retail, hotel and facilities	Haikou	79.0%	November 2008	December 2010	148,204	92,914	92,914
Shenyang Rich Gate	Phase II	Retail and facilities	Shenyang	51.0%	March 2009	June 2014	407,728	233,333	233,333
Shenyang Albany		Residential and retail	Shenyang	70.0%	June 2009	June 2012	130,929	126,807	126,807
Yosemite Oasis Community	Phase I	Residential and retail	Shenyang	100.0%	September 2008	August 2010	293,126	285,396	285,396
Rich Gate Seaview	Phase I	Residential, office, retail and facilities	Shanghai	49.9%	July 2008	September 2011	111,842	90,000	90,000

The following table sets forth certain information of our properties for future development as at May 31, 2009.

Project	Phase	Types of Products	Location	Interest Attributable to Us	Expected Construction Commencement Date	Expected Completion Date	Total GFA (sq.m.)	Total Salable GFA (sq.m.)	Remaining GFA (sq.m.)
Albany Oasis Garden	Phase III	Residential, retail and facilities	Shanghai	100.0%	June 2011	December 2013	75,065	71,131	71,131
	Phase IV	Residential, retail and facilities	Shanghai	100.0%	April 2012	March 2015	71,500	70,192	70,192
	Phase V	Residential, retail and facilities	Shanghai	100.0%	March 2014	September 2016	57,043	54,482	54,482
	Phase VI	Office, retail and facilities	Shanghai	100.0%	December 2014	December 2017	150,620	140,083	140,083
Haikou Bund Centre	Phase II	Residential and retail	Haikou	79.0%	March 2010	September 2012	262,180	262,180	262,180
	Phase III	Residential and retail	Haikou	79.0%	June 2010	June 2014	308,475	308,475	308,475
	Phase IV	Residential, office, hotel and retail	Haikou	79.0%	2013	2015	226,175	226,175	226,175
Central-Ring Centre	Phase I	Hotel	Shanghai	96.7%	August 2009	December 2011	44,200	44,200	44,200
Qinhai Oasis Garden	Phase I	Residential/ Retail	Shanghai	100%	January 2011	December 2012	30,048	24,038	24,038
	Phase II	Residential/ Retail	Shanghai	100%	June 2013	June 2015	60,540	48,432	48,432
	Phase III	Residential and retail	Shanghai	100%	June 2013	June 2015	85,335	68,268	68,268
Shenyang Albany		Residential, office and retail	Shenyang	70.0%	June 2010	December 2015	543,571	535,093	535,093
Yosemite Oasis Community	Phase II	Residential	Shenyang	100.0%	June 2013	June 2015	203,960	203,960	203,960
Shenyang Rich Gate	Phase II		Shenyang	51.0%	June 2013	June 2015	665,272	665,272	665,272
Baoshan Cedar Island		Residential	Shanghai	100.0%	September 2009	September 2011	110,000	110,000	110,000

Land bank

As at May 31, 2009, our land bank for completed projects, projects under development and projects for future development had an aggregate size of approximately 4.6 million sq.m. in total gross floor area. As at May 31, 2009, approximately 12.6% of our land bank comprised land for completed projects and 25.3% of the land bank was under development, while the remaining 62.1% of our land bank comprised land that is yet to be developed. We maintain an integrated land reserve acquisition strategy that takes into account our short, medium and long-term development needs. We believe that, by means of our existing methods of replenishing the land bank, our land bank will be sufficient to satisfy our development plans for the next three to five years.

Site Identification

Driven by the objective to develop landmark developments in selected locations that appreciate in value over time, we employ a stringent set of criteria in selecting land use rights for our land bank. This includes market analysis to understand the trends of the property market and the urban development plans laid down by the relevant municipal governments. The value of the land plot will be considered in relation to the estimated cost of the intended development for that land plot.

Moreover, the location of the land plot is crucial, as it has a large bearing on the success of the development sited on the land plot. We believe that the experience of our management team is essential in identifying locations with significant growth potential.

We also review existing or prospective government legislation or policies for the relevant sites before acquiring land plots.

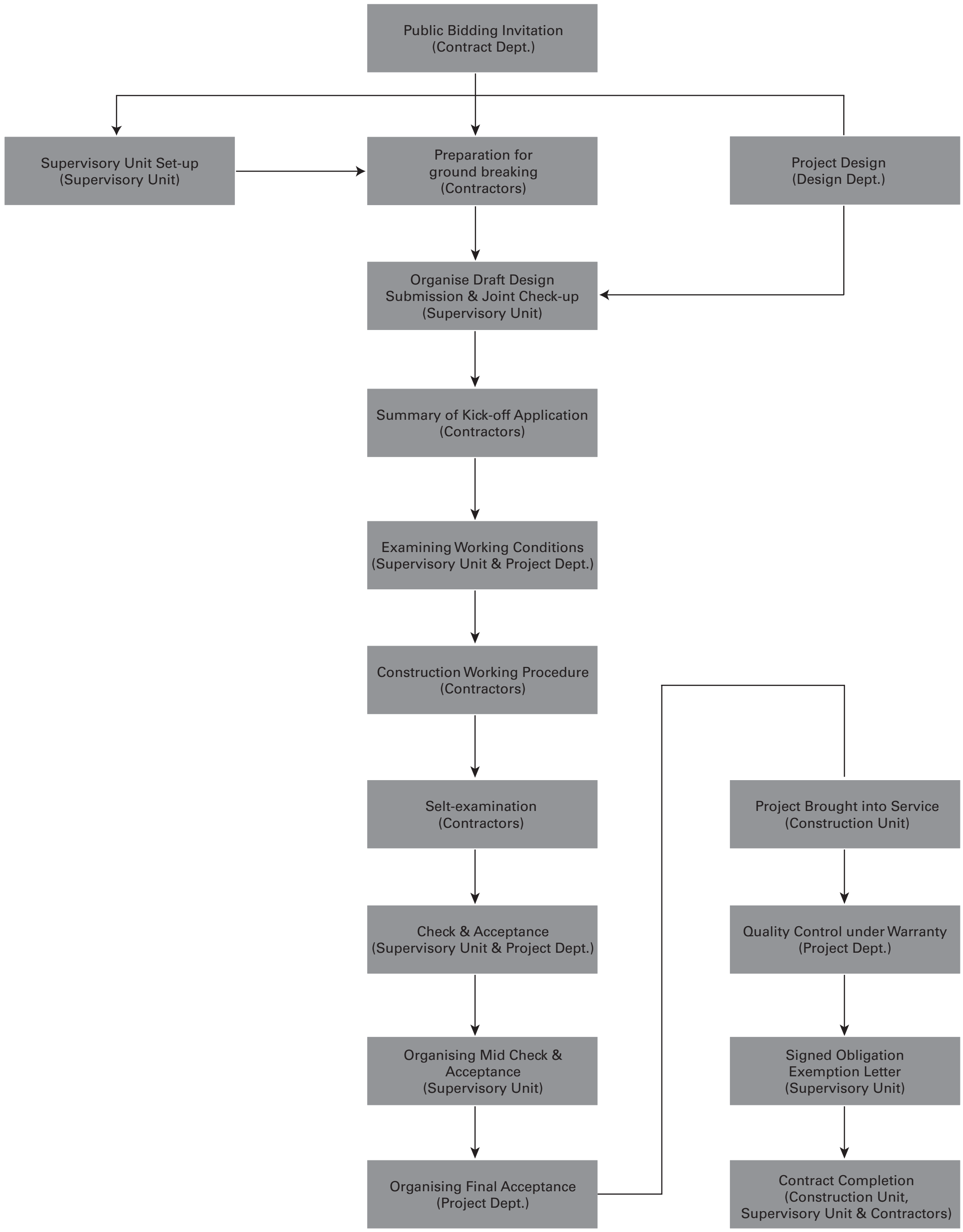
Acquisition of Land

Prior to July 2002, land use rights could be obtained from local government authorities under land grant contracts. In 2002, the Ministry of Land and Resources issued rules which provided that, commencing from July 1, 2002, with limited exemptions, state-owned land use rights for the purposes of commercial use, tourism, entertainment and commodity residential properties in the PRC can only be granted by the government through public tender, auction or listing-for-sale.

We acquired the majority of our current land bank through acquisitions of controlling interests in existing companies which had been granted land use rights. As the cost of land acquisitions are generally lower when the land use rights are acquired through mergers and acquisitions of companies owning such land use rights than through public bidding procedures, we intend to continue to employ this mergers and acquisitions strategy in acquiring land parcels in the future. However, in a few recent cases, we have also acquired land use rights through public bidding procedures when the purchase prices were favourable. Land slots acquired in this way mainly include the land slots where two of our development projects, Hainan Bund Center and Shenyang Albany, are situated and the land slot of approximately 110,000 sq.m. located in Baoshan, Shanghai.

Project management

The chart below illustrates the flow of our project management and oversight:



Each of our projects is carried out and managed by a separate subsidiary or joint venture company. Such subsidiaries and joint venture companies are independent from each other in their operations and financing arrangements.

The construction and engineering department, the design department, the contract management department and the sales and marketing department at our head office oversee and control the major steps of all of our developments, strategic planning, financing and budget control, the acquisition and marketing aspects of its development operations, including the selection and purchase of sites, the obtaining of government approvals for zoning and modifications, and the marketing, sales, leasing and management of completed projects. Our human resources division, legal division and accounting and finance division are also part of our head office.

We designate a general manager for each of our project companies. The designated general manager is responsible for the day-to-day operations and management of each individual project. Each individual project company is responsible for implementing infrastructure, engineering and supervision of day-to-day construction work. Feasibility studies, which include market analyses of prospective projects to assist our management in deciding whether to develop a particular site, are prepared by the project companies and approved by our head office. During the construction phase, the project companies are responsible for managing the progress of development. They work closely with the contractors so as to control costs and to ensure the quality of the construction work. We seek to control development costs by actively supervising construction work, which also enhances the quality of the projects.

Contracting

We engage third party contractors to provide various services, including designing and architecture, construction, piling and foundation, building and property fitting-out work, interior decoration, landscaping and installation of air-conditioning units and elevators. Contractors are selected through negotiated tenders, based on the quality of their work, pricing and completion schedule. The tender procedures must comply with the relevant local regulations in the cities in which we operate. We have a panel of experienced personnel who are familiar with the various aspects of civil engineering to assess the quality of work and suitability of candidate contractors for our projects.

Contractor's fees are denominated in RMB and paid by installments according to the progress of construction. The construction contracts contain warranties and undertakings of the construction companies in terms of quality and timely completion of the construction. The construction companies are required to comply with PRC laws and regulations on the quality of construction products as well as our own standards and specifications. The contractors are also subject to our quality control procedures, including examination of materials and supplies, on-site inspection and production of progress reports. Construction payments are determined primarily based on the estimated labor and material costs and fitting requirements and usually computed on a per square meter basis. Most of the supplies, including steel and cement, for our construction work are centrally procured through our procurement department. Our centralized procurement system gives us more bargaining power and better cost control, enabling us to benefit from economies of scale. Only in limited cases, the third party contractors are responsible for procurement of raw materials, and in such cases, the total contract fee takes into account the cost of these materials and the contraction contract typically allows adjustment to the total contractor fees if at the time of purchases, the prices of such construction materials have fluctuated beyond the range stipulated in the construction contract. We have not had any major disputes with any of our contractors.

Financing of projects

We have three main sources of funding for our development projects: internal resources, bank loans and proceeds from pre-sales. While our financing method varies from project to project, our policy is to finance our development projects by internal resources to the extent practicable and pre-sell certain portions of the development where the regulatory requirements for pre-sale are satisfied and where market conditions allow, in order to reduce the level of external funding required.

Payment method and mortgage financing

Purchasers may pay for the properties by way of lump sum payment or payment in installments or payments with mortgage facilities, with the first installment comprising in general at least 30% of the purchase price.

Arrangements are made with various domestic banks to provide mortgage facilities to purchasers of the properties. Historically, we would provide guarantees to mortgagee banks in respect of mortgage loans extended to some of our customers before these customers could provide title documents to the lending banks and complete the registration of the mortgage with the relevant local authority (which generally occurs after vacant possession has been delivered to the customers). The period of such guarantees typically would range from 20 to 36 months. In accordance with industry practice, we no longer provide such guarantees. As at December 31, 2008, the outstanding guarantees over the mortgage loans of our customers amounted to approximately HK$15,000,000. As to these outstanding guarantees, if, during the guarantee period, a purchaser defaults on its mortgage repayment obligations, we will be liable to pay to the lending bank for the amount owed by the purchaser, but we will have the right to take possession and re-sell the mortgaged property. Accordingly, the period in which we actually bear the credit risk of our customers starts from the date vacant possession of the property is delivered to the purchaser. In line with industry practice we did not conduct independent credit checks on customers in providing these guarantees but would rely on the credit checks conducted by the mortgagee banks. We have not experienced any default by a material portion of such customers under such guarantees.

Pre-sales

Substantially all of our properties are sold on a pre-sale basis. We seek to sell a property in advance of completing its construction as soon as the development has reached the point that pre-sales are permitted under PRC laws. Before commencing pre-sales of its properties, we must apply to the relevant government authorities for pre-sale permits. Such permits will be issued only when, among other things, (i) the land premium has been fully paid up; (ii) the land use right certificates, the construction work planning permit and the construction project building permit have been obtained; (iii) the construction work of the commodity houses have been completed up to the stipulated standard, namely (a) in the case of properties of seven storeys or below, the basic foundation work and the structural construction have been completed; and (b) in the case of properties of eight storeys or above, the basic foundation and at least two-thirds of the main structural construction have been completed and at least seven storeys have been completed in any event; (iv) the progress and the expected completion date of the construction work have been ascertained; (v) the construction plans for the affiliated facilities have been confirmed; (vi) the pre-sale fund escrow agreement has been signed with a professional real estate funding supervisory body; (vii) the covenant of the use of the properties has been formulated; and (viii) an initial property management services contract has been signed with a property management company.

Sales & marketing

In the marketing of each development, our sales and marketing team focuses on brand marketing with emphasis on quality of the design and furnishings of the property, so as to enable prospective buyers and the relevant PRC or local government agencies to better identify with us and our developments, given our track record of previous developments. Our brand names, "Oasis Garden", "Rich Gate", "Albany", "Skyway" and "Lake Malaren", are well known in the real estate industry in the regions where we operate.

As our property developments are middle– to high-end properties, the sales and marketing team, in formulating its marketing strategy, would target its marketing efforts at the relevant segment of the market. We also at times leverage on well-known personalities or public figures who are occupants or investors of the developments to boost our marketing efforts and sales.

As at June 25, 2009, the sales and marketing teams of our development projects had approximately 120 employees. Only a small percentage of our property developments are marketed through external real estate agents. The majority of our property developments are marketed and sold by our in-house team of sales and marketing personnel.

The sales and marketing team is remunerated by a combination of a fixed base salary and a variable commission. Members of the sales team have set annual sales targets, and upon achievement of each sales target, the sales team member will be compensated with commission at a pre-determined percentage of sales volume.

After-sales service

We maintain a client relationship management system to foster customer relationships. The project companies managing the relevant project assist their customers in arranging financing and provide them with financing information, including information on potential mortgagee banks and the mortgage terms that they offer. The project companies also assist their customers in various title registration procedures relating to the properties. Members of the Customer Services Department carry out customer surveys with the purchasers normally one year after delivery of possession to seek customer feedback on the design and quality of the properties and the quality of its customer and management services. Such data are then taken into account when we develop and plan new projects. We also have a division in our Customer Services Department that is dedicated to handling customer complaints and maintenance and repair requests. We believe that such services promote customer confidence and are effective in enhancing our "Oasis Garden" "Rich Gate", "Albany", "Skyway" and "Lake Malaren" brand names and encouraging customers to purchase, or recommend to others, properties developed by us.

Descriptions of Our Development Projects

The following is our major development projects:

Shanghai Rich Gate

Shanghai Rich Gate comprises 108 units of luxury residential apartments and retail outlets and is located in Lu Wan District of Shanghai, which is part of Shanghai's downtown area. It is situated adjacent to Xin Tian Di, a high-end entertainment complex. Our effective interest in this project is approximately 99%. This project occupies a total site area of 14,651 sq.m. and has a total gross floor area of 85,219 sq.m. Construction work on this project commenced in May 2002 and was completed in 2006.

Central-Ring Center

Central-Right Center comprises residential units, service apartments, offices, a hotel and retail outlets and is located in Putuo District of Shanghai, a regional logistic hub that connects Shanghai to the nearby provinces, including Jiangsu and Zhejiang provinces. Our effective interest in this project is approximately 96.79%. This project occupies a total site area of 75,875 sq.m. and has a total gross floor area of 321,637 sq.m.

The construction of the residential units for this project is divided into two phases. Phase I commenced in July 2002 and was completed in 2005. Phase II was completed in 2006. Construction of the attendant residential facilities and retail units commenced in 2004 and was completed in 2007. Construction of the hotel is expected to start in August 2009 and the estimated completion date is 2011. Construction of the office units started in 2006 and was completed in 2008.

Beverly Oasis Garden

The Beverly Oasis Garden is a residential project comprised of 566 villas, located in Song Jiang District in southwestern Shanghai (approximately 28 kilometres from the central business district of Shanghai). Our effective interest in this project is approximately 98.75%. This project occupies a total site area of 829,000 sq.m. and has a total gross floor area of 199,827 sq.m.

The Beverly Oasis Garden project comprises three phases. Phase I with 356 units in total commenced in August 1998 and was completed in 2002. Phase II with 189 units in total commenced in December 2001 and was completed in 2004. Phase III with 21 units in total commenced in September 2004 and was completed in 2006.

Long Island and Cedar Island Oasis Garden

Long Island and Cedar Island Oasis Garden is a residential project comprising of high rise apartments and semi-detached villas. It is located in the Song Jiang District in Shanghai. Our effective interest in this project is approximately 98.75%. This project occupies a total site area of 497,000 sq.m. and has a total gross floor area of 542,317 sq.m.

Long Island and Cedar Island Oasis Garden comprises three phases. Phase I with 620 units in total commenced in May 2000 and was completed in 2002. Phase II with 180 units in total commenced in June 2002 and was completed in 2003. Phase III of the project, which is further divided into five sub-phases, commenced in December 2003 and is expected to be completed in 2009.

Thousand Islands Oasis Garden

Thousand Islands Oasis Garden comprises luxury Mediterranean-style villas with a golf course (which is only for residential purposes) located in Nan Hui District in southeastern Pudong, Shanghai. Our effective interest in this project is approximately 98.0%. This project occupies a total site area of 371,643 sq.m. and has a total gross floor area of 102,115 sq.m.

Thousand Islands Oasis Garden comprises three phases. Phase I with 22 villas commenced construction in May 2003 and was completed in 2004. Phase II with 74 units in total commenced in May 2004 and was completed in 2005. Phase III comprises 94 villas, which commenced construction in March 2006 and was completed in 2007.

Jiangnan Oasis Garden

Jiangnan Oasis Garden, which comprises 136 villas, is located in Zhu Jia Jiao Town of the Qing Pu District in Shanghai. Our effective interest in this project is approximately 50.36%. This project occupies a total site area of 316,000 sq.m. and has a total gross floor area of 59,531 sq.m.

Jiangnan Oasis Garden comprises two phases: Phase I has 96 units and Phase II has 40 units. Construction of Phase I commenced in September 2002 and was completed in 2004. Construction of Phase II commenced in April 2005 and was completed in 2006.

Albany Oasis Garden

Albany Oasis Garden comprises residential units, offices, a hotel and retail outlets and is located in Zhabei District of Shanghai. Our effective interest in this project is 100%. This project occupies a total site area of 206,010 sq.m. and has a total gross floor area of 480,000 sq.m.

Construction of the residential units of Albany Oasis Garden is divided into three phases. Phase I commenced construction in March 2005 and was completed in 2007. Construction of Phase II commenced in 2008, and is expected to complete in 2010. Construction of Phase III and Phase IV is expected to commence in 2011 and 2012 and is expected to be completed in 2013 and 2015, respectively. The construction of the attendant residential facilities and retail units is expected to start in 2012 and 2014 and be completed in 2015 and 2017, respectively. Construction of the hotel and offices is expected to start in 2014 and their expected completion date is 2017.

Qinhai Oasis Garden

Qinhai Oasis Garden is located in the Huang Pu District of Shanghai. This project occupies a total site area of 37,129 sq.m. and has a total gross floor area of 175,923 sq.m.

The land plot is being developed into residential complexes totaling 500 units with attendant residential facilities and retail outlets. Phase I of this project is expected to commence in 2011 and its expected completion date is 2012.

Lake Malaren Garden

Lake Malaren Garden (formerly known as “Rich Gate Mansion”), a residential project, is located at Luodian New Town, Shanghai, and abuts Lake Malaren Golf Club, Lake Malaren Resort. This project occupies a total site area of 120,595 sq.m. and has a total gross floor area of 131,253 sq.m. Construction of phase I began in August 2008, and is expected to complete in 2011.

Rich Gate Sea View

Rich Gate Sea View is located at Jinshan riverside in Shanghai. It is a residential project. This project occupies a total site area of 35,852 sq.m. and has a total gross floor area of about 111,842 sq.m. Construction began in 2008, and is expected to complete in 2011.

Shenyang Yosemite Oasis Community

Shenyang Yosemite Oasis Community is located at Lixiang New Town, Dongling district of Shenyang. This project occupies a total site area of 425,732 sq.m. and has a total gross floor area of about 490,000 sq.m. A residential project, its construction began in 2008. It also received its pre-sale permit, and sales commenced at the end of 2008, with Phase I scheduled to be handed over in November 2009.

Construction of Phase II is expected to commence later this year and is expected to be completed in 2011.

Shenyang Rich Gate

Shenyang Rich Gate is located in the central area of Financial Corridor (in the central business district in Shenyang). The total site area of this project is 161,885 sq.m. and has a total gross floor area of about 1,500,000 sq.m. An integrated property project, it consists of residential, office, retail, hotel and serviced apartment. Phase I, with a GFA of about 400,000 sq.m., commenced construction in 2005 and was completed in 2008. This project has a 240,000 sq.m. shopping mall, one of the largest in northeastern China, along with a service apartment, some offices and residential units. Construction of Phase II is expected to commence in 2013 and to complete in 2015.

Shenyang Albany

Shenyang Albany is located at Heping District in central Shenyang. It has a site area of 158,536 sq.m. and a total gross floor area of about 1,000,000 sq.m. About 70% of the gross floor is expected to be residential and the rest for commercial. Construction is expected to commence in 2010, and is expected to complete in 2014.

Haikou Bund Centre

Haikou Bund Centre is a new project planned as an integrated coastal ecology city combining luxury apartments, coastal businesses and recreation, a 5-star hotel, grade A offices and a yacht club. This project occupies a total site area of 227,272 sq.m. and has a total gross floor area of about 900,000 sq.m. Construction of Phase I commenced at the end of 2008 and is expected to complete in 2010. Construction of Phase II is expected to commence in 2010 and complete in 2012, Phase III is expected to commence in 2010 and complete in 2014, and Phase IV is expected commence in 2013 and complete in 2015.

Property Investment

We have gradually built up, and will continue to enlarge, our portfolio of investment properties consisting of commercial and residential properties for long-term investment. These properties will be developed by us and located within our development projects. This is part of our business strategy to gradually create a stable recurrent source of income from investment properties. We will consider selling the properties in our investment property portfolio if and when the property market conditions are favorable. At present, our property investment portfolio includes the retail spaces at Shanghai Rich Gate and Shenyang Rich Gate, the office and retail spaces in Central-Ring Center, and two hotels, Pullman Shanghai Skyway Hotel and Lexington Shenyang Rich Gate Hotel. The periods of operating leases entered into with respect to the retail spaces and office spaces of the above properties range from one to 15 years. For the two years ended December 31, 2007 and 2008, our revenue generated from property leasing was HK$42.2 million and HK$72.9 million, respectively, and our revenue generated from hotel operation was HK$41.1 million and HK$102.0 million, respectively.

The following table sets forth certain particulars of our investment properties we held for leasing as at May 31, 2009.

Project	Location	Type of Property	Interest Attributable To Us	Total GFA (sq.m.)	Total Rentable GFA (sq.m.)
Shanghai Rich Gate (Phase I)	Shanghai	Retail space (above ground)	100.0%	6,315	6,315
		Retail space (underground)	100.0%	5,015	5,015
Shenyang Rich Gate (Phase I)	Shenyang	Retail space	51.0%	245,252	108,000
Central-Ring Centre (Phase I)	Shanghai	Office space	96.7%	27,475	27,475
		Retail space	96.7%	34,020	34,020

The following table sets forth certain particulars of our hotels in operation and under development as at May 31, 2009.

Hotel	Location	Interest Attributable to Us	Total GFA (sq.m.)	Total Rentable GFA (sq.m.)	Opening Date
Pullman Shanghai Skyway Hotel	Shanghai	56.0%	86,129		April 28, 2007
Lexington Shenyang Rich Gate Hotel	Shenyang, Liaoning	51.0%	55,976	37,595	July 25, 2008
Haikou Bund Centre/ Phase I (under development)	Haikou, Hainan	79.0%	34,000	34,000	Expected December 1, 2011
Central-Ring Centre/Phase I (under development)	Shanghai	96.7%	44,200	44,200	Expected January 1, 2012

Property Management Services

We provide property management services to the owners and users of the projects that we have developed. These services include rental agency, security management, maintenance, clubhouse operations, gardening and landscaping and other customer services. We believe that property management is an integral part of our business and is very important to the successful marketing and promotion of our property developments.

Housing Technology Development

Our housing technology business is principally focused on the research, development and design of new integrated products and technologies for residential homes. It complements our core business of property development and is closely linked to the modernisation of building construction. We believe that housing technology plays an important role in urbanisation and the development of high quality residential property.

We restructured our housing technology operation in 2002 and it is now focused on the research and development of new products and new technologies, with the aim of improving the technology content of our properties under development, enhancing our overall market competitiveness and increasing our market share in property development projects. The high quality housing technology services has provided synergy to, and helped further strengthen the growth of, our property development business.

Our achievements in the housing technology business include the development of the "intelligent office", which involved the integration of electronic technological solutions within civil engineering projects; specifically, to create a residential district network specially designed for broadband network users within residential districts. The development of the "Wingo Infrastructure" brand router machine and related broadband access equipment, which is integrated in many of our high-end property developments, is an example of the complementary function of the housing technology business to our core business of property development.

Competition

We believe that the property markets in Shanghai, Shenyang and Haikou are fragmented and there is no dominant market entity in any of these markets. Our existing and potential competitors include overseas property developers (including a number of leading Hong Kong and Singapore property developers) and local developers in the PRC.

We compete with other property developers in Shanghai, Shenyang and Haikou for the acquisition of suitable development sites and sale of residential and commercial properties. We believe that the extensive experience of our senior management in property development and sales will enable it to compete effectively. Furthermore, we believe that our strategy of site acquisition at reasonably low cost, our continuous focus on the development of quality properties and the provision of quality customer service will enable us to maintain our reputation as a developer of quality properties.

We expect the Shanghai, Shenyang and Haikou property markets to continue to experience further consolidation, which will eventually result in a smaller number of property developers in the market.

Insurance

We maintain insurance with reputable independent insurance companies to insure against damage to properties that we own and that fall within our investment portfolio. Properties that are currently under construction are separately insured by our contractors against operational risks at the construction sites, third party liability insurance, property and asset insurance, and unemployment, pension and medical insurance for the contractors' employees.

We believe that our properties are covered with adequate insurance provided by reputable independent insurance companies and with commercially reasonable deductibles and limits on coverage and that our insurance coverage is in line with market practice in the regions where we operate. Notwithstanding our insurance coverage, damage to our buildings, facilities, equipment, or other properties as a result of fire, floods, water damage, explosion, power loss, typhoons, earthquakes and other natural disasters could nevertheless have a material adverse effect on our financial condition and results of operations.

Intellectual Property

We have registered the following trademarks with the PRC Trademark Office:

Trademark	Class	Trademark Number	Validity Period
绿洲花园	19 – building materials (non-metallic)	1332808	From November 14, 1999 to November 13, 2009
	36 – letting, agency and management of immovable properties; management and letting of apartments; valuation and broker of immovable properties	1339831	From November 28, 1999 to November 27, 2009
SKYWAY	36 – letting, agency and management of immovable properties; management and letting of apartments; valuation and broker of immovable properties	3485931	From February 28, 2005 to February 27, 2015

Environmental and Safety Matters

We are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by the municipal governments in the cities in which we operate. These include regulations on air pollution, noise emissions and water and waste discharge. Each property developed by us needs to undergo environmental assessments and an environmental impact study report needs to be submitted to the relevant government authorities before approval is granted for commencement of the property development, except for some early property developments which were approved before the applicable environmental laws were promulgated. At completion of each property, the relevant government authorities will also need to inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is then presented together with other specified documents to the local construction administration authorities for their record.

Our operations are also subject to inspections by government officials with regard to various safety and environmental issues.

We believe that we are in compliance in all material respects with applicable environmental regulations in the PRC. We are not aware of any environmental proceedings or investigations to which we are or might become a party.

Employees

As at December 31, 2008, we had 2,716 employees (excluding independent contractors).

None of our employees are members of a trade union and we have not experienced any strikes or disruptions due to labour disputes. We consider our relations with our employees to be good.

Legal Proceedings

We are not involved in any litigation or other proceedings which would have a material adverse effect on our business or financial position as a whole.

DIRECTORS AND MANAGEMENT

The members of the Board of Directors of the Company are as follows:

Executive Directors:
Mr. Shi Jian *(Chairman)*
Mr. Li Yao Min *(Vice-Chairman)*
Mr. Yu Hai Sheng *(Vice-Chairman & Co-Chief Executive Officer)*
Mr. Yue Wai Leung, Stan *(Co-Chief Executive Officer)*
Mr. Jiang Xu Dong *(Co-President)*

Non-executive Directors:
Mr. Cheung Wing Yui
Mr. Jin Bing Rong

Independent Non-executive Directors:
Mr. Jiang Xie Fu
Mr. Pan Long Qing
Mr. E. Hock Yap

The following are particulars of the qualifications, if any, and experience of the Directors of the Company:

Executive Directors

Mr. Shi Jian, age 55, is the Chairman of the Board as well as the founder of the Group. Mr. Shi is responsible for the formulation of the Group's development strategy. From 1986 to 1993, Mr. Shi was an administration manager of Shanghai Rainbow Hotel. From 1993 to 1995, he was the general manager of the Universal Mansion project. Mr. Shi has over 20 years' experience in property investment and corporate operation.

Mr. Li Yao Min, age 58, is the Vice Chairman of the Board. Mr. Li is in charge of the real estate development of the Group. He joined the Group in May 1993. From 1992 to 1993, Mr. Li worked for Shanghai Golden World Commercial Building Co., Ltd as general manager. Mr. Li has over 20 years' relevant management experience in construction, structure, planning and large scale real estate project development.

Mr. Yu Hai Sheng, age 55, is the Vice Chairman of the Board and Co-Chief Executive Officer of the Company. Mr. Yu is responsible for financing, capital operation and housing technology business of the Group. Mr. Yu obtained a Master of Business Administration from Shanghai University. Mr. Yu joined the Group in 1997. Mr. Yu had been manager of Shanghai Mechanical Engineering Company, factory manager of Shanghai Pioneer Mechanical Engineering Factory and chief of Industrial Planning Bureau of Shanghai Sports Commission. He has ample experience in the installation of electrical, mechanical and networking equipment and management.

Mr. Stan Yue Wai Leung, age 48, is the Co-Chief Executive Officer of the Company. Mr. Yue holds a Bachelor's Degree in Administration Studies from York University in Toronto, Canada. He is a Member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Yue has over 20 years of experience in the finance and administration sectors in both private and public companies in Hong Kong and the PRC. He has also served with international accounting firms in Hong Kong, the PRC and the United States. During the period from May 2004 to April 2007, Mr. Yue served as the Chief Financial Officer of the Company. He was an executive director and a Co-Vice Chairman of China New Town Development Company Limited ("**CNTD**"), an associated company of the Company listed on the Singapore Stock Exchange, immediately before this new appointment. He will continue to serve in CNTD as a non-executive director and a Co-Vice Chairman. Save as disclosed above, Mr. Yue has not held any directorship in other listed public companies during the three years immediately before his appointment.

Mr. Jiang Xu Dong, age 45, is an Executive Director and Chief Operation Officer of the Company. Mr. Jiang is responsible for coordinating the real estate development business of the Group. Mr. Jiang graduated from Shanghai Tongji University in 1986 specializing in industrial and civil construction, and was awarded a MBA degree afterwards. He joined the Group in 1997. He was a department director of Shanghai Real Estate Administration Bureau between 1986 and 1997. Mr. Jiang has nearly 20 years' experience in property development and operation management.

Non-executive Directors

Mr. Cheung Wing Yui, age 59, is a Non-executive Director of the Company. Mr. Cheung has been a practicing lawyer in Hong Kong since 1979 and admitted as a solicitor in the United Kingdom and as advocate and solicitor in Singapore. He is currently a consultant of Messrs. Woo, Kwan, Lee & Lo, Solicitors and Notaries, and a member of the Council of the Open University of Hong Kong. Mr. Cheung is a director of a number of listed companies in Hong Kong (including SmarTone Telecommunications Holdings Limited, Sunevision Holdings Limited, Tianjin Development Holdings Limited, Ping An Insurance (Group) Company of China, Ltd., Tai Sang Land Development Limited, Hop Hing Group Holdings Limited and Agile Property Holdings Limited) and resigned as director of Taifook Securities Group Limited and Ching Hing (Holdings) Limited in 2007.

Mr Jin Bing Rong, age 60, is a Non-executive Director of the Company. Mr. Jin received a bachelor's degree from Fudan University in Shanghai in 1984. Mr. Jin has over 20 years of experience in the banking industry and was the former Chairman of the Shanghai branch of Agricultural Bank of China. Mr. Jin has been with the Agricultural Bank of China since 1984 and has served as the Chairman of its branches throughout various districts in Shanghai during his career of more than 20 years.

Independent Non-executive Directors

Mr. Jiang Xie Fu, age 66, was the Vice-Chairman of the Urban & Rural Construction and Environmental Protection Committee of Shanghai People's Congress Standing Committee for the past six years. He had been the Party Secretary of the Shanghai Municipal Housing, Land and Resource Administration Bureau. He obtained a Bachelor degree in History from Shanghai Normal University.

Mr. Pan Long Qing, age 60, is a senior economist. During the period from 1975 to 2003, he was a PRC government official and had held various key positions including, inter alia, the Deputy Head of Nanhui County of Shanghai, the Party Secretary and Head of Jinshan County of Shanghai, the Deputy Director of Shanghai Municipal Agriculture Commission and Shanghai Municipal Economic System Reform Committee, the Vice-Secretary of the District Party Committee, the District Mayor and the Secretary of the District Party Committee of Songjiang District of Shanghai. Between 2003 and 2005, he was the Party Secretary and the Director of Shanghai Foreign Economic Relation & Trade Commission and the Director of Shanghai Foreign Investment Commission. From 2005 to May 2009, Mr. Pan was the Party Secretary, the Vice Chairman and the General Manager of Shanghai International Group Co., Ltd. and the Party Secretary and the Chairman of its major subsidiary, Shanghai International Trust Co., Ltd. From 2006 to early 2009, Mr. Pan was also a director of Shanghai Pudong Development Bank Co., Ltd., which is listed on the Shanghai Stock Exchange. Mr. Pan is currently acting as the Chairman of the

Accounting Society of China Trust Division, a director of Shanghai Rural Commercial Bank and an independent non-executive director of Lonking Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. E. Hock Yap, age 53, graduated from Sheffield University with a Bachelor of Science degree in chemical engineering. He is a member of the Institute of Chartered Certified Accountants in England. Mr. Yap has over 25 years of financial and accounting management experience.

Audit Committee

We established an audit committee on November 12, 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 primary duties of the audit committee are the review and supervision of the financial reporting process and internal control system of the Company and to provide advice and comments to the Board of Directors. The audit committee has five members comprising the two non-executive Directors and the three independent non-executive Directors.

Share Options

A share option scheme ("Share Option Scheme") was approved in a special general meeting held on May 23, 2002. Under the Share Option Scheme, the Directors may, at their discretion at any time during the 10 years from the date of approval of the Share Option 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 will be equal to the higher of (i) the average official closing price of the Shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the Shares on the Hong Kong Stock Exchange on the relevant offer date. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board of Directors to each grantee and unless the Board of Directors shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed three years commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or November 11, 2009, whichever is the earlier.

As at July 9, 2009, there was no share option outstanding under the Share Option Scheme.

Substantial Shareholders' Interests

As at July 9, 2009, to our best knowledge, the following persons, other than a Director of the Company, had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO:

Long position in Shares

Name of Shareholder	Capacity	No. of Shares Held	Interest in Underlying Shares of Equity Derivatives of the Company Pursuant to Convertible Notes	Aggregate Interests	Approximate Percentage of Shareholding
Si Xiao Dong	Beneficial owner, spouse and corporate interest	1,250,480,045 (Note 1)	–	1,250,480,045	34.70%
SRE Investment Holding Limited (Note 2)	Beneficial owner	1,248,400,938	–	1,248,400,938	34.64%

Notes:

1. These Shares in which Ms. Si Xiao Dong is interested in comprise (i) 2,220 Shares being personally held by Ms. Si Xiao Dong; (ii) 1,248,400,938 Shares being interest held by SRE Investment Holding Limited in which Ms. Si Xiao Dong and her spouse, Mr. Shi Jian together beneficially own 63% of its issued share capital; and (iii) 2,076,887 Shares being personally held by Mr. Shi Jian.

2. These Shares were held by SRE Investment Holding Limited, a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Ms, Si Xiao Dong, together beneficially own 63% of its issued share capital. The remaining 37% interest in SRE Investment Holding Limited were held by other management staff of the Company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min, Mr. Stan Yue Wai Leung and Mr. Jiang Xu Dong. Mr. Shi Jian and Mr. Li Yao Min are directors of SRE Investment Holding Limited.

Except as disclosed above, as at July 9, 2009, the Company had not been notified of any interests and short positions in the Shares and underlying Shares of the Company, which had been recorded in the register required to be kept under Section 336 of the SFO.

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

As at July 9, 2009, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporation") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in Shares

Name of Director	Personal Interests	Family Interests	Corporate Interests	Total	Approximate Percentage of Shareholding
Shi Jian	2,076,887	2,220 (Note 1)	1,248,400,938 (Note 2)	1,250,480,045	34.70%
Li Yao Min	2,220	–	–	2,220	0.00006%
Yu Hai Sheng	1,065,987	–	–	1,065,987	0.03%

Notes:

1. These Shares were held by Ms. Si Xiao Dong, the wife of Mr. Shi Jian.
2. These Shares were held by SRE Investment Holding Limited, a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Ms. Si Xiao Dong, together beneficially own 63% of its issued share capital. The remaining 37% interest in SRE Investment Holding Limited were held by other management staff of the Company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min, Mr. Yue Wai Leung, Stan and Mr. Jiang Xu Dong. Mr. Shi Jian and Mr. Li Yao Min are directors of SRE Investment Holding Limited.

Except as disclosed above, as at July 9, 2009, none of the Directors or chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its Associated Corporations which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors' Interest in Contracts

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors had a material interest, either directly or indirectly, subsisted as at May 31, 2009 or at any time during the period.

Directors' Rights to Acquire Shares

All Directors have zero share options outstanding.

Except as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of, the Company or any other body corporate.

RELATED PARTY TRANSACTIONS

Members of the Group engage in, and expect from time to time in the future to engage in, financial and commercial transactions with their respective related parties. As a company whose shares are listed on the main board of the Hong Kong Stock Exchange, the Company and its subsidiaries are subject to the announcement, reporting and shareholders' approval requirements under Chapter 14A of the Listing Rules with respect to "connected transactions". We believe many related party transactions are captured by the definition of "connected transactions", and as such, they have been disclosed by us to our shareholders and the Hong Kong Stock Exchange through public filings. Furthermore, we believe that the transactions entered into by us with our related parties (i) are on normal commercial terms and the terms of such transactions are fair and reasonable to us and (ii) are in the interests of our shareholders as a whole.

Substantially all of our related party transactions for the three years ended December 31, 2008 arose from trade activities. As at December 31, 2007 and 2008, we had the following significant trade balances with our related parties:

	As at December 31,	
	2007	2008
	Amounts expressed in thousands of HK$	
Portion of Group's consideration for purchase of land plots (developed by CNTD) that CNTD is entitled to receive	330,451	249,482
Construction of infrastructure for an intelligent network for CNTD	5,857	2,011
Sales of goods to Shanghai Telecom Broadband Networking Co., Ltd.	3,592	5,457

As at December 31, 2007 and 2008, we had the following significant loan balances with related parties:

	As at December 31,	
	2007	2008
	Amounts expressed in thousands of HK$	
Loans to CNTD		
Beginning of the year	523	–
Interest received	(523)	–
End of the year	–	–

For further information on our related party transactions, see note 45 to our audited financial statements for the year ended December 31, 2008.

Connected Transactions

Set forth below is a description of the material connected transactions that we have entered into within the last three years.

(i) The Acquisition of Konmen Investment Limited

In August 2007, the Company and a wholly-owned subsidiary agreed to acquire all of the issued and outstanding share capital of Konmen Investment Limited, or Konmen, a company incorporated in the British Virgin Islands from SRE Investment Holding Limited, the Company's controlling shareholder. Konmen owns 70% of a company that holds two commercial/residential projects known as "Shu Xiang Men Di" and "Appreciate Europe" as well as the right to acquire the plot of land located at No. 2007-024 Heping South Street East, Heping District, Shenyang. The consideration payable by us was HK$1,600 million, which was satisfied by the Company issuing 526,315,789 shares at HK$3.04 per share to our controlling shareholder.

(ii) The Acquisition of Shanghai Zhufu Property Development Co., Ltd.

In June 2007, a wholly-owned subsidiary of the Company entered into an agreement with a third party company to acquire from such third party company 49% of the issued and outstanding share capital of Shanghai Zhufu Property Co., Ltd., or Shanghai Zhufu, a company incorporated in the PRC. We own 98.75% of a company that in turn owns 51% of Shanghai Zhufu. The principal asset held by Shanghai Zhufu is the real estate development known as "Jiangnan Oasis Garden" situated at Nos. 6 and 18-1, Nagang Village, Zhujiajiao Town, Qingpu District, Shanghai. The conditions applicable to this acquisition were not satisfied and the parties agreed to terminate this transaction in December 2008.

(iii) The Acquisition of a 47.52% Interest in the Shopping Mall of the Shanghai Rich Gate Project

In June 2006, we entered into an agreement with a third party company to acquire 48% of Anderson Land (Shanghai) Limited, or Anderson Shanghai, a company that indirectly owns 99% of the Shanghai Rich Gate development project, for an aggregate consideration of RMB300 million. We already held the remaining 52% of Anderson Shanghai immediately prior to consummating the transaction. Following such acquisition, we increased our ownership of the Shanghai Rich Gate development project to 99%. As a result of the increase in ownership, we are entitled to 47.52% of the economic interest of the commercial and retail shopping mall properties portion of the Shanghai Rich Gate development project.

(iv) The Acquisition of Shanghai Qinhai Real Estate Co., Ltd.

In May 2006, a wholly-owned subsidiary of the Company entered into an agreement with a third party that owned 60% of Shanghai Qinhai Real Estate Co., Ltd., or Qinhai, pursuant to which such subsidiary agreed to acquire a 30% interest in Qinhai for RMB105 million. As a result of this acquisition, our interest in Qinhai increased from 40% to 70%. Qinhai's principal asset is the Qinhai Oasis Garden development project.

In October 2006, we entered into another agreement with the same third party company pursuant to which we acquired the remaining 30% interest held by such company in Qinhai for RMB90 million. Following the completion of this transaction, Qinhai became a wholly-owned subsidiary of the Company.

Related Party Transactions that are not Connected Transactions

Set forth below is a description of the material related party transactions that do not fall within the definition of "connected transactions".

(i) Subscription for Shares of CNTD

In March 2009, a wholly-owned subsidiary of the Company entered into an agreement with CNTD pursuant to which such subsidiary agreed to subscribe for and purchase 680,000,000 ordinary shares of CNTD, representing approximately 33.91% of the existing issued share capital of CNTD (and 25.32% on a diluted basis), at S$0.0051 per share. Following the completion of this transaction in May 2009, the Company indirectly owns approximately 49.24% of the outstanding issued shares of CNTD.

(ii) Acquisition of Land Parcels

We have, through public bidding procedures, purchased land use rights with respect to land parcels developed by CNTD and Golden Luodian (CNTD's subsidiary). Pursuant to the arrangements between the relevant government authorities and CNTD or Golden Luodian concerning the development of these land parcels, CNTD or Golden Luodian, as the case may be, is entitled to receive an agreed portion of the purchase price that we paid to the government authorities for such land use rights. The total consideration that CNTD received in this manner was HK$330,451,000 and HK$249,482,000 during the years ended December 31, 2007 and 2008, respectively.

(iii) Provision of Services

We have in the past constructed, and we expect to continue to construct, infrastructure for intelligent networks for Golden Luodian and CNTD. During the years ended December 31, 2007 and 2008, revenue generated from such services provided to Golden Luodian and CNTD was approximately HK$5,857,000 and HK$2,011,000, respectively.

(iv) Sales of Goods

We have in the past sold, and we expect to continue to sell, goods to Shanghai Telecom Broadband Networking Co., Ltd., an affiliate of the Company. During the years ended December 31, 2007 and 2008, revenue generated from sales to Shanghai Telecom Broadband Networking Co., Ltd. was approximately HK$3,592,000 and HK$5,457,000, respectively.

(v) Guarantees and Loans

In 2007 and 2008, certain of the Group's loans were guaranteed by Mr. Shi Jian, a substantial shareholder of the Company, and members of the Group provided guarantees to certain related parties. During the same periods, the Group also extended loans to certain related parties, including Shuo Cheng, Golden Luodian and CNTD. See note 43 to the Company's audited consolidated financial information for the year ended December 31, 2007 and note 45 to the Company's audited consolidated financial information for the year ended December 31, 2008 for further information relating to these guarantees and loans.

To fund our existing development projects and to finance our general working capital requirements and repayment of debts, the Company and its subsidiaries have entered into a number of loan facilities. As at March 31, 2009, our aggregate amount of short and long-term bank borrowings, convertible bonds and guaranteed notes was approximately HK$6,109 million.

In December 2008, the Company issued five-year convertible bonds in the aggregate principal amount of HK$165,000,000 to two bondholders, Well Fortune Investments Limited and Citic Capital China Access Fund Limited. These convertible bonds carried interest at 2.5% per annum. All of these convertible bonds have been converted to Shares of the Company, and as such, we are no longer subject to the covenants contained in the trust deed governing these convertible bonds.

Loan Facilities

Set forth below is a summary of the material terms and conditions of the loan facilities that we consider most material.

US$9,200,000 term loan facilities granted by Morgan Stanley & Co International Plc.

The Company entered into a US$9,200,000 term loan facility with Morgan Stanley & Co International Plc., or Morgan Stanley, in April 2007 to finance the payment of US$9,200,000 due to Morgan Stanley in connection with the unwinding of a cross-currency swap agreement between the Company and Morgan Stanley. As at May 31, 2009, the outstanding amount under this loan facility was US$3,292,320.65.

Under this loan facility, the Company is required to repay the principal amount in six semi-annual installments of US$1,696,000 each on April 24 and October 24 of each year starting from October 24, 2007. This loan facility contains a cross-default provision referring to events of default under the trust deed between the Company and DB Trustees (Hong Kong) Limited as trustee and constituting the US$200,000,000 8.625 per cent. Guaranteed Notes due 2013.

HK$320,000,000 term loan facility granted by Citic Ka Wah Bank Limited

In March 2009, the Company entered into a HK$320,000,000 term loan facility with Citic Ka Wah Bank Limited, or CKWB. The proceeds from this facility were used to repay all outstanding amounts under the loan facility that CKWB extended to Golden Bright Resources Limited, a wholly-owned subsidiary of the Company, as well as refinance the Company's investment in its new property development projects. This term loan facility consists of two tranches, tranche A and tranche B, of HK$160,000,000 each. The interest rates applicable to tranche A and tranche B of this facility are 1.96% and 2.58% per annum, respectively, above the prevailing one, two, three or six months HIBOR. Tranche A of this facility is repayable in three principal installments, with the first installment of HK$50,000,000 to be made 24 months after the initial full drawdown, the second installment of HK$50,000,000 to be made 30 months after the initial full drawdown, and the last installment of HK$60,0000,000 to be made on the 3rd anniversary of the initial full drawdown. Tranche B of the facility is repayable on the third anniversary of its initial full drawdown. As at May 31, 2009, the outstanding principal amount under tranche A loan and tranche B loan was HK$160,000,000 and HK$160,000,000, respectively.

This facility is secured by (i) mortgages over shares owned by Jadecorp Investment Limited, or Jadecorp, a wholly-owned subsidiary of the Company, in three of our subsidiaries registered in the British Virgin Islands, namely Linhill Investment Limited, Fullion International Limited and Prosogo Investment Limited; (ii) mortgages over the three residential units in Shanghai Rich Gate owned by these three BVI subsidiaries; (iii) an assignment of any sale proceeds derived from the sale of such residential units; and (iv) an assignment of the insurance policies with respect to such residential units.

This facility contains certain covenants, pursuant to which the Company agreed: (i) not to conduct merger or consolidation with any other entity or to start any process of dissolution, liquidation or winding up; (ii) not to repurchase or redeem any issued shares or reduce its share capital, to distribute its assets to its shareholders (other than dividends permitted under clause (iii) below), or to repay any shareholders loans; (iii) not to declare or pay dividends that exceed 30% of any distributable net profit in any financial year; (iv) not to substantially change its nature of business, or to dispose of any part of its property (this covenant also applies to the other members of the Group); (v) not to create any encumbrances over its assets, except as in the ordinary course of business or in connection with acquisition of new projects; and (vi) not to enter into any agreement or to perform obligations which might have a material adverse affect on its financial or other conditions.

This facility also requires the Company to ensure that the three BVI subsidiaries referred to above will not: (i) without CKWB's consent, sell, lease or assign to any third parties, or otherwise dispose of, the residential units in Shanghai Rich Gate that have been mortgaged; (ii) guarantee debt owed to any third party, except in the ordinary course of business; (iii) create security interest in any of their properties; or (iv) incur indebtedness, or keep bank accounts with any other financial institutions, or make deposit with any person other than CKWB.

This facility also contains certain financial covenants that the Company must comply with: (i) the total equity net of minority interests shall at all times be no less than HK$6,000,000,000; (ii) the consolidated current assets shall at all times be no less than 110% of the consolidated current liabilities; (iii) the ratio of consolidated interest-bearing bank loans less all cash held by all members of the Group to total equity (including minority interests) shall at all times be no less than 0.8; and (iv) the consolidated secured loans shall at all times be no more than 60% of the consolidated assets.

This facility provides for customary events of default, including a cross-default provision referring to default under, or acceleration of, any other loans or indebtedness of the Company or any of the members of the Group, subject to a basket of HK$50,000,000.

Renminbi-denominated loan facilities granted by PRC banks

Certain of our PRC subsidiaries have entered into RMB denominated loan facilities with various PRC banks, primarily Bank of China, Agricultural Bank of China, China Construction Bank, Industrial and Commercial Bank of China and Shanghai Pudong Development Bank. These RMB loans are typically project loans to finance the construction of our development projects and have terms ranging from one year to ten years. As at May 31, 2009, the outstanding amount under these RMB loans totaled approximately RMB3,412.45 million.

The principal amounts outstanding under the RMB loans generally bear interest at floating rates calculated by reference to the relevant bank's benchmark interest rate per annum. Floating rates are generally subject to review by the banks periodically.

Most of the RMB loans are secured by mortgages over specific land use rights and/or the projects under development relating to such loans, and some of them are also guaranteed by the Company or certain subsidiaries of the Company. Most of the RMB loans contain customary covenants that restrict the borrowers' ability to undertake any restructuring, reorganization or merger, transfer any equity, create liens or prepay other indebtedness. Certain RMB loan agreements restrict the borrowers from paying dividends before the relevant loan facilities are fully repaid.

Guaranteed Notes

On April 24, 2006, the Company issued guaranteed notes maturing April 24, 2013 with an aggregate principal amount of US$200 million and a fixed interest rate of 8.625% per annum (the "Guaranteed Notes"). The Guaranteed Notes are guaranteed by all of the Company's subsidiaries that are not incorporated in the PRC, except Anderson Land (Shanghai) Limited. The Guaranteed Notes are listed on the Hong Kong Stock Exchange.

Interest on the Guaranteed Notes are payable semi-annually in arrears on April 24 and October 24 in each year commencing on October 24, 2006.

On June 8, 2009, the Company commenced a tender offer to purchase for cash any and all of the Guaranteed Notes and a solicitation of consents by holders of the Guaranteed Notes to remove substantially all of the restrictive covenants and events of default set out in the terms and conditions of the Guaranteed Notes and eliminate the requirement to repurchase the Guaranteed Notes upon a change of control. The tender offer and consent solicitation expired on July 14, 2009. As at the expiration of the Tender Offer and Consent Solicitation, consents from holders holding US$158,199,000 of the principal amount of the Guaranteed Notes, representing approximately 79.10% of the total aggregate principal amount of Guaranteed Notes outstanding, had been validly delivered and not been revoked; and US$128,539,000 of the principal amount of the Guaranteed Notes, representing approximately 64.27% of the total aggregate principal amount of Guaranteed Notes outstanding, had been validly tendered and not been withdrawn. The completion of the tender offer and consent solicitation is conditional upon, among other conditions, the completion of this offering. After the completion of the tender offer and consent solicitation, the remaining covenants of the Guaranteed Notes will include the making of payments due under the Guaranteed Notes, the maintenance of required government approvals and licenses and compliance with law and the provision of financial information. See "Recent Developments – Tender Offer and Consent Solicitation with respect to Guaranteed Notes".

DESCRIPTION OF THE SHARES

Set out below is certain information concerning the Shares and a summary of certain provisions of the Company's Bye-laws (the "Bye-laws") and certain other information concerning the Company. Such summary does not purport to be complete and is qualified in its entirety by reference to the full Bye-laws.

Memorandum of Association

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act 1981 of Bermuda (the "Companies Act"). The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the "board") upon such terms and subject to such conditions as it thinks fit.

Bye-Laws

The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(1) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(2) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(3) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(4) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(5) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third-party.

(b) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the Directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(c) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(d) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(e) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the recognised clearing house (or its nominee).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(f) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange) and place as may be determined by the board.

(g) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(h) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form, in a form prescribed by the Designated Stock Exchange, or in any other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(i) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(j) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(k) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(l) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(m) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding twenty per cent. per annum as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

(n) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members *in specie* or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(o) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and remain exercisable, and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of Directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

Variation of Memorandum of Association and Bye-Laws

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

MARKET PRICE INFORMATION

Our Shares have been listed on the Hong Kong Stock Exchange since December 10, 1999. The table below sets forth the closing prices and the quarterly trading volume of the Shares on the Hong Kong Stock Exchange for the periods indicated:

	Closing Share Price			Total Trading Volume of Shares
	High	Low	End of Period	
		(HK$)		('000)
2008				
First quarter	1.93	1.23	1.37	395,248
Second quarter	1.67	0.83	0.84	519,578
Third quarter	0.92	0.57	0.59	313,600
Fourth quarter	0.66	0.31	0.52	850,896
2009				
First quarter	0.64	0.38	0.60	975,639
Second quarter	1.24	0.60	0.99	5,291,718
Third quarter (up to July 13)	1.12	0.96	0.96	787,722

Source: Bloomberg

EXCHANGE RATES

PRC

The PBOC sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and US dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to US dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the US dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day and makes it the central parity for the trading against the Renminbi on the following working day. On May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the US dollar by up to 0.5% above or below the central parity rate published by the PBOC.

The following table sets forth the noon buying rate for US dollars in New York City for cable transfers in the Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	**Low**	**Average**(1)	**High**	**Period End**
		(RMB per US$1.00)		
2004	8.2764	8.2768	8.2774	8.2765
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.6062	7.8127	7.2946
2008	6.7800	6.9484	7.2946	6.8225
2009				
January	6.8225	6.8355	6.8403	6.8392
February	6.8241	6.8364	6.8470	6.8395
March	6.8240	6.8360	6.8438	6.8329
April	6.8180	6.8304	6.8361	6.8180
May	6.8176	6.8234	6.8326	6.8278
June	6.8264	6.8334	6.8371	6.8302
July (up to July 13)	6.8312	6.8314	6.8331	6.8312

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2007 and 2008, which is determined by averaging the daily rates during that period.

On July 13, 2009, the noon buying rate for US dollars in New York City for cable transfers in the Renminbi was US$1.00 to RMB6.8312 as certified for customs purposes by the Federal Reserve Bank of New York.

HONG KONG

The HK dollar is freely convertible into the US dollar. Since 1983, the HK dollar has been linked to the US dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the HK dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. The Hong Kong government has indicated its intention to maintain the link at that rate. Under the Basic Law, the HK dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the HK dollar will remain freely convertible into other currencies, including the US dollar. However, we cannot assure you that the Hong Kong government will maintain the link at HK$7.80 to US$1.00, or at all.

The following table sets forth the noon buying rate for US dollars in New York City for cable transfers in HK dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	**Low**	**Average[1]**	**High**	**Period End**
	(HK$ per US$1.00)			
2004	7.7632	7.7891	7.8010	7.7723
2005	7.7514	7.7755	7.7999	7.7533
2006	7.7506	7.7685	7.7928	7.7771
2007	7.7497	7.8016	7.8289	7.7984
2008	7.7497	7.7861	7.8159	7.7499
2009				
January	7.7499	7.7562	7.7618	7.7544
February	7.7511	7.7533	7.7551	7.7551
March	7.7497	7.7530	7.7593	7.7500
April	7.7495	7.7502	7.7508	7.7500
May	7.7500	7.7510	7.7526	7.7519
June	7.7499	7.7505	7.7516	7.7500
July (up to July 13)	7.7500	7.7505	7.7516	7.7500

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2007 and 2008, which is determined by averaging the daily rates during that period.

On July 13, 2009, the noon buying rate for US dollars in New York City for cable transfers in Hong Kong dollars was US$1.00 to HK$7.7500 as certified for customs purposes by the Federal Reserve Bank of New York.

DIVIDENDS

Subject to the Companies Act and the Bye-Laws of the Company, the Company may declare dividends in general meeting but no dividends shall exceed the amount recommended by the Board of Directors of the Company. The Company in general meeting may also make a distribution to the members of the Company out of contributed surplus. The Board of Directors of the Company may from time to time pay such interim dividends to the members of the Company as may appear to the Board of Directors to be justified by the Company's profits. No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium accounts. In addition, under our HK$320 million term loan facility with Citic Ka Wah Bank Limited, we are prohibited from declaring or paying dividends that exceed 30% of any distributable net profit in any financial year. See "Description of Other Material Indebtedness – Loan Facilities – HK$320,000,000 term loan facility granted by Citic Ka Wah Bank Limited."

The table below sets out certain statistics on dividends declared by the Company on the Shares in respect of the financial years indicated:

Year ended December 31,	Final Dividend per Share	Final Dividend (HK$ thousand)
2007	HK$0.035	96,000
2008	Nil	–

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds and Shares is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds or Shares and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Bonds and Shares.

Bermuda

Tax

Under current Bermuda legislation, there is no withholding tax, capital gains tax, income or profits tax, capital transfer tax, estate duty or inheritance tax payable in Bermuda by the Company or its shareholders or bondholders other than shareholders and bondholders ordinarily resident in Bermuda.

Furthermore, the Company has obtained from the Minister of Finance in Bermuda, under the Exempted Undertakings Tax Protection Act, 1996, an assurance that, in the event of there being enacted in Bermuda any legislation which in the future may impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not until March 28, 2016 be applicable to the Company or to any of its operations, or to shares, debentures or other obligations of the Company except insofar as such tax applies to persons ordinarily resident in Bermuda or to land in Bermuda leased or let to the Company.

Stamp Duty

As an exempted company, the Company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates essentially to real and personal property physically situated in Bermuda, including shares in local (as opposed to exempted) companies. None of the Company, its shareholders or the holders of the Bonds, as the case may be (other than persons ordinarily resident in Bermuda), are subject to stamp duty or other similar duty on the issue or transfer of the Bonds.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal (including Early Redemption Amounts) and interest in respect of the Bonds.

No tax is payable in Hong Kong by withholding or otherwise in respect of payments of dividends on the Shares.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal, conversion or redemption of the Bonds where such sale, disposal, conversion or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

(i) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which such interest is received or accrues are made available outside Hong Kong; or

(ii) a corporation carrying on a trade, profession or business in Hong Kong; or

(iii) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Shares where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp duty

No stamp duty is chargeable in Hong Kong for the issue, sale, transfer or conversion of a Bond, whether pursuant to trades over the HKSE or privately-negotiated transactions.

No stamp duty is chargeable in Hong Kong for the issue of Shares upon conversion of the Bonds. Hong Kong stamp duty is payable, however, on any purchase and sale of Shares for as long as the transfer thereof is required to be registered in Hong Kong. The duty is charged on each of the purchaser and the seller at the *ad valorem* rate of 0.1% of the consideration for, or (if greater) the value of, the Shares bought and sold. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5. Where a sale or purchase of Shares registered on a Hong Kong share register is effected by a person who is not resident in Hong Kong and any stamp duty payable thereon is not paid, the relevant instrument of transfer (if any) is chargeable with such duty in default and the transferee is liable to pay such duty.

EU Directive on the Taxation of Savings Income

The Council of the European Union has adopted a directive regarding the taxation of savings income. Member States are required from January 1, 2005 to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments unless during such period they elect otherwise.

PRC

Under the new Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends and interest income payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends or interest income have their sources within the PRC. Similarly, any gain realized on the transfer of the Bonds or the Shares may be regarded as income derived from sources within the PRC. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. If we are considered a PRC "resident enterprise", it is unclear whether the dividends and interest (as well as other amounts) we pay with respect to our Shares and Bonds respectively, or the gain investors may realize from the transfer of our Shares and Bonds, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are considered a PRC "resident enterprise", we may be required under the new Enterprise Income Tax Law to withhold PRC income tax on our dividends and interest payments payable to non-PRC holders of our Bonds and Shares.

SUBSCRIPTION AND SALE

Subscription Agreement

The Joint Bookrunners are Credit Suisse (Hong Kong) Limited and Deutsche Bank AG, Hong Kong Branch. Each Joint Bookrunner has, pursuant to a subscription agreement (the "Subscription Agreement") dated June 29, 2009, agreed with us, subject to the satisfaction of certain conditions, to procure subscribers for the Bonds at the issue price of 100% of the principal amount of the Bonds. We agreed to pay the Joint Bookrunners a combined management and underwriting commission and selling concession fee as agreed between the Joint Bookrunners and us.

The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to us. Subject to certain conditions, we have agreed to indemnify the Joint Bookrunners against certain liabilities incurred in connection with the offering of the Bonds. We have also agreed to reimburse the Joint Bookrunners certain of their expenses related to this offering.

The Joint Bookrunners, their subsidiaries and affiliates may have performed certain investment banking and advisory services for us or our subsidiaries from time to time for which they would have received customary fees and expenses, including acting as placement agents in connection with our top-up placement of 520,000,000 Shares, which was completed on July 3, 2009. In addition to the transactions noted above, the Joint Bookrunners may, from time to time, engage in other transactions with and perform services for us or our subsidiaries and affiliates in the ordinary course of their business. In addition, the Joint Bookrunners, their subsidiaries and affiliates may hold our Shares as beneficial owners, on behalf of clients or in the capacity of investment advisors.

The Bonds are a new issue of securities with no established trading market. Application has been made to list the Bonds as selectively marketed securities on the Hong Kong Stock Exchange. However, no assurance can be given as to the liquidity of any trading market for the Bonds.

Lock-Up Agreements

We have agreed, for a period from June 29, 2009 up to 90 days after the closing date of this offering, without the prior written consent of the Joint Bookrunners, not to issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal), any of our Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase our Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares (whether or not such contract is to be settled by delivery of our Shares or such other securities, in cash or otherwise) except (a) for the issue and allotment of the Shares pursuant to the top-up placement completed on July 3, 2009, (b) for the grant of share-based awards pursuant to the terms of any of our employee share option scheme, (c) for the grant of any bonus or scrip dividend or enter into similar arrangements which provide for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Memorandum of Association, or (d) for the issue and allotment of the Shares in connection with the conversion of the Bonds.

Our controlling shareholder SRE Investment Holdings Limited and our executive officers have also agreed, for a period from June 29, 2009 up to 90 days after the closing date of this offering, without the prior written consent of the Joint Bookrunners except in connection with the stock borrow arrangement described below, not to issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Shares or securities of the same class as the Shares or other instruments representing interests in the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing.

Stock Borrow

Concurrently with this offering, SRE Investment Holding Limited, our principal shareholder, has agreed to lend up to 150,000,000 of our ordinary shares to affiliates of the Joint Bookrunners to facilitate short sales and/or privately negotiated derivative transactions by which investors in the Bonds will hedge their investment in the Bonds. In connection with facilitating those transactions, the Joint Bookrunners expect to receive customary, negotiated fees from investors.

General Selling Restrictions

No action has been or will be taken by us or the Joint Bookrunners that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. No offers, sales or deliveries of any Bonds, or distribution or publication of any offering material relating to the Bonds, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on us or the Joint Bookrunners.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), an offer of Bonds may not be made to the public in that Relevant Member State except, with effect from and including the Relevant Implementation Date, to:

(a) legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Bonds referred to in (a) to (d) above shall require the Company or any Joint Bookrunner to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Hong Kong

The Bonds may not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors", as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus", as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No advertisement, invitation or document relating to the Bonds may be issued whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors", as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "Financial Instruments and Exchange Law"). Accordingly, each Joint Bookrunner has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other applicable laws and regulations of Japan.

Singapore

The Offering Circular will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Bonds may not be offered or sold, or be made the subject of an invitation for subscription or purchase, and the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (2) to a relevant person pursuant to Section 275(1), or any person pursuant to

Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of which is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor;

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law.

United Kingdom

Each of the Joint Bookrunners has represented and agreed that:

(a) it has communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue of any Bonds only in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

United States of America

The Bonds and the Shares have not been, and will not be, registered under the U.S. Securities Act, and may not be offered or sold within the United States except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Bonds are being offered or sold only outside the United States in reliance on Regulation S.

Bermuda

The Bonds have not been, and will not be, offered or sold to any person, firm or company regarded as resident of Bermuda.

GENERAL INFORMATION

- **Clearing Systems**: The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 043810189 and the International Securities Identification Number ("ISIN") for the Bonds is XS0438101890.
- **Listing of Shares**: Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds.
- **Listing of Bonds**: Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds. It is expected that dealing in, and listing of, the Bonds on the Hong Kong Stock Exchange will commence on July 24, 2009. Listing of the Bonds on the Hong Kong Stock Exchange is conditional upon satisfaction of the requirements of that exchange.
- **Authorisations**: The Company has obtained all necessary consents, approvals and authorisations in connection with the issue of the Bonds and performance of the Company's obligations thereunder. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company passed on June 29, 2009.
- **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no material adverse change in our financial or trading position or prospect since December 31, 2008.
- **Litigation**: Save as disclosed in this Offering Circular, we have not been involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor are we aware that any such proceedings are pending or threatened.
- **Available Documents**: Copies of the latest annual report and audited annual consolidated accounts and the latest unaudited interim consolidated accounts, as well as the Trust Deed and the Agency Agreement will be available for inspection, at the specified office of the Company at Room 2501, 25th Floor, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours or at the principal office of the Trustee at 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong during normal business hours, so long as any of the Bonds is outstanding. We publish the Company's unaudited interim consolidated accounts for the six months ended June 30 every year.
- **Reliance by the Trustee**: The Trustee is entitled under the Trust Deed to rely without liability to the Bondholders on certificates prepared by the Directors of the Company and accompanied by a certificate or report prepared by an internationally recognised firm of accountants to the Company whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the internationally recognised firm of accountants to the Company and whether by reference to a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the Company's obligation to procure such delivery under the Terms and Conditions of the Bonds or the Trust Deed. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Bondholders.
- **Auditors**: The consolidated financial statements of the Company for the year ended December 31, 2008 included elsewhere in this Offering Circular have been audited by Ernst & Young, Certified Public Accountants, as stated in their report appearing herein. Ernst & Young have given and have not withdrawn their written consent for the purposes of paragraph 8(2) of Appendix 1 Part C of the Listing Rules to the issue of the Offering Circular with the inclusion herein of their Independent Auditor's Report dated 20 April 2009 on the audited consolidated financial statements of the

Company for the year ended December 31, 2008 and all references to their name and report in the form and context in which they respectively appear. A written consent for the purposes of paragraph 8(2) of Appendix 1 Part C of the Listing Rules is different from a consent filed with the U. S. Securities and Exchange Commission under Section 7 of the U.S. Securities Act, which is applicable only for transactions involving securities under the U.S. Securities Act. The audited consolidated financial statements of the Company for the year ended December 31, 2008 contain the comparative consolidated financial statements of the Company for the year ended December 31, 2007. As of the date of this Offering Circular, Ernst & Young are independent of any member of the Group and do not have any shareholding interests in the Group or the right (whether legally enforceable or not) to subscribe for or, to nominate persons to subscribe for securities in any member of the Group.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG
安永會計師事務所

Certified Public Accountants
18/F Floor
Two International Finance Centre
8 Financial Street, Central
Hong Kong

執業會計師
香港中環金融街8號
國際金融中心2期樓

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 59 to 144 which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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' judgement, 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.

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 2008 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.

Ernst & Young
Certified Public Accountants
18F Two International Finance Centre, 8 Finance Street, Central
Hong Kong
20 April 2009

Consolidated Income Statement
Year ended 31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2008	2007
Revenue	5	3,739,865	3,350,446
Cost of sales	7	(2,844,987)	(2,713,929)
Gross profit		894,878	636,517
Selling and marketing costs	7	(75,685)	(112,345)
Administrative expenses	7	(251,350)	(173,746)
Other income		–	969
Other gains – net	6	1,411,217	1,302,738
Operating profit		1,979,060	1,654,133
Finance income	8	152,521	187,161
Finance costs	9	(11,063)	(140,105)
Finance income – net		141,458	47,056
Share of profits and losses of associates		(443,186)	(31,021)
Profit before tax		1,677,332	1,670,168
Tax	12	(893,471)	(641,960)
Profit for the year		783,861	1,028,208
Attributable to:	13		
Equity holders of the parent		247,936	1,019,040
Minority interests		535,925	9,168
		783,861	1,028,208
Dividends – proposed final	14	–	96,000
Earnings per share attributable to ordinary equity holders of the parent	15		
– Basic		8.91 cents	42.95 cents
– Diluted		8.64 cents	41.81 cents

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

Balance Sheets
31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group 2008	Group 2007	Company 2008	Company 2007
ASSETS					
Non-current assets					
Property, plant and equipment	16	1,668,269	1,429,956	282	272
Investment properties	17	5,248,073	1,842,375	–	–
Prepaid land lease payments	18	885,914	1,108,527	–	–
Properties under development for long-term investment	19	–	880,124	–	–
Goodwill	20	447,495	422,627	–	–
Investments in subsidiaries	21(a)	–	–	4,565,875	4,260,440
Advances to subsidiaries	21(b)	–	–	1,073,459	857,205
Interests in associates	22(a)	530,402	972,668	–	–
Deferred tax assets	34	19,811	–	–	–
Other non-current assets	23	279,042	63,159	279,042	41,801
		9,079,006	6,719,436	5,918,658	5,159,718
Current assets					
Prepaid land lease payments	18	6,654,264	5,554,483	–	–
Properties held or under development for sale	24	3,096,513	4,109,523	–	–
Inventories		30,885	24,673	–	–
Dividends receivable from subsidiaries		–	–	390,573	976,131
Amounts due from associates	22(b)	138,968	11,048	132,438	3,868
Prepayments and other current assets	25	66,404	78,891	555	638
Other receivables	26	642,145	1,106,464	–	252
Accounts receivable	27	18,165	54,817	–	–
Prepaid income tax		5,303	23,837	–	–
Cash and bank balances	28	1,575,476	1,939,359	170,687	269,482
		12,228,123	12,903,095	694,253	1,250,371
Total assets		21,307,129	19,622,531	6,612,911	6,410,089

Balance Sheets (continued)
31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group 2008	Group 2007	Company 2008	Company 2007
EQUITY AND LIABILITIES					
EQUITY					
Issued capital and premium	29	4,003,101	3,956,327	4,003,101	3,956,327
Other reserves	30	1,019,625	555,442	527,086	262,737
Retained profits	30				
– Proposed final dividend		–	96,000	–	96,000
– Others		1,449,859	1,192,117	5,817	1,573
Equity attributable to equity holders of the parent		6,472,585	5,799,886	4,536,004	4,316,637
Minority interests		1,400,776	783,469	–	–
Total equity		7,873,361	6,583,355	4,536,004	4,316,637
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	31	3,045,114	2,629,211	216,865	351,078
Guaranteed notes	32	1,537,947	1,540,928	1,537,947	1,540,928
Deferred tax liabilities	34	1,430,596	755,355	–	–
		6,013,657	4,925,494	1,754,812	1,892,006
Current liabilities					
Interest-bearing bank and other borrowings	31	1,495,640	1,164,570	142,620	142,182
Convertible bonds-host debts	33	62,008	35,363	62,008	35,363
Derivative financial liabilities	35	88,470	19,604	88,470	19,604
Advances received from the pre-sale of properties under development	36	1,171,996	2,392,775	–	–
Accounts payable	37	1,357,377	1,596,202	–	–
Other payables and accruals	38	2,241,817	2,072,911	21,024	4,297
Current income tax liabilities		983,491	831,880	–	–
Amounts due to related companies	39	19,312	377	7,973	–
		7,420,111	8,113,682	322,095	201,446
Total liabilities		13,433,768	13,039,176	2,076,907	2,093,452
Total equity and liabilities		21,307,129	19,622,531	6,612,911	6,410,089
Net current assets		4,808,012	4,789,413	372,158	1,048,925
Total assets less current liabilities		13,887,018	11,508,849	6,290,816	6,208,643

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

Shi Jian
Chairman

Yu Hai Sheng
Vice Chairman and Chief Executive Officer

Consolidated Statement of Changes in Equity
Year ended 31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to equity holders of the parent								
	Issued capital and premium (Note 29)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2007	2,042,586	12,012	248	77,894	63,019	361,884	2,557,643	396,981	2,954,624
Exchange realignment	–	–	–	–	261,230	–	261,230	67,750	328,980
Total income and expense for the year recognised directly in equity	–	–	–	–	261,230	–	261,230	67,750	328,980
Profit for the year	–	–	–	–	–	1,019,040	1,019,040	9,168	1,028,208
Total income and expense for the year	–	–	–	–	261,230	1,019,040	1,280,270	76,918	1,357,188
Effects of change in tax rate	–	2,567	–	–	–	–	2,567	–	2,567
Issue of shares upon conversion of convertible bonds	121,672	–	–	–	–	–	121,672	–	121,672
Share of equity movements in an associate	–	(18,196)	–	–	–	–	(18,196)	–	(18,196)
Acquisition of minority interests	–	–	–	–	–	–	–	(1,335)	(1,335)
Acquisition of a subsidiary	1,768,421	–	–	–	–	–	1,768,421	250,925	2,019,346
Capital contribution from minority shareholders of a subsidiary	–	–	–	–	–	–	–	61,728	61,728
Increase in fair value of previously held interest upon step acquisition to a subsidiary	–	106,955	–	–	–	–	106,955	–	106,955
Revaluation reserve transfer to retained profits upon sale of properties	–	(86,469)	–	–	–	86,469	–	–	–
Transfer from retained profits	–	–	–	136,182	–	(136,182)	–	–	–
Dividends relating to 2006									
– Cash dividends (Note 14)	–	–	–	–	–	(19,446)	(19,446)	–	(19,446)
– Scrip dividends (Note 29)	23,648	–	–	–	–	(23,648)	–	–	–
Dividends paid to minority shareholders	–	–	–	–	–	–	–	(1,748)	(1,748)
At 31 December 2007	3,956,327	16,869*	248*	214,076*	324,249*	1,288,117	5,799,886	783,469	6,583,355

Consolidated Statement of Changes in Equity (continued)
Year ended 31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to equity holders of the parent									
	Issued capital and premium (Note 29)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
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
Exchange realignment	–	–	–	–	397,874	–	–	397,874	15,094	412,968
Total income and expense for the year recognised directly in equity	–	–	–	–	397,874	–	–	397,874	15,094	412,968
Profit for the year	–	–	–	–	–	–	247,936	247,936	535,925	783,861
Total income and expense for the year	–	–	–	–	397,874	–	247,936	645,810	551,019	1,196,829
Share of equity movements in an associate	–	–	–	–	–	75,940	–	75,940	–	75,940
Acquisition of minority interests (Note 21(a)(i))	–	–	–	–	–	–	–	–	(427)	(427)
Capital contribution from minority 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 29)	46,774		–	–	–	–	(46,774)	–	–	–
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(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$1,019,625 thousand (2007: HK$555,442 thousand) in the consolidated balance sheet.

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

Consolidated Cash Flow Statement
Year ended 31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	40	(504,384)	1,024,670
Interest paid		(433,183)	(305,183)
Income tax paid		(118,208)	(284,325)
Net cash inflow/(outflow) from operating activities		(1,055,775)	435,162
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(288,913)	(10,482)
Proceeds from disposal of property, plant and equipment		5,738	5,652
Construction of investment properties		(151,639)	(736,954)
Acquisition of subsidiaries, net of cash acquired	44	(26,784)	99,522
Disposal of subsidiaries		–	(21,360)
Refund/(prepayment) for acquisition of an additional equity interest in a subsidiary		41,374	(41,801)
Cash receipts from the shareholder in respect of land obtained via the acquisition of a subsidiary		–	549,445
Increase in investments in an associate		(14,023)	–
Disposal of an equity interest in a company	23(c)	199,685	–
Earnest money paid for investment and properties	22(b),23(a)	(403,040)	–
Increase in time deposits with original maturity over three months when acquired	28	(4,997)	–
Interest received		16,727	45,533
Net cash used in investing activities		(625,872)	(110,445)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of convertible bonds		162,932	–
Refund of a guarantee deposit for currency swaps		–	53,272
Increase in pledged bank deposits		(95,932)	(74,426)
Proceeds from short-term borrowings		737,045	218,130
Repayments of short-term borrowings		(1,299,467)	(137,194)
Proceeds from long-term borrowings		1,569,355	802,322
Repayments of long-term borrowings		(446,647)	(480,608)
Redemption of convertible bonds		(46,406)	–
Cash received from the capital injection from minority shareholders of subsidiaries		100,397	64,075
Dividends paid to minority shareholders of subsidiaries		(33,682)	–
Dividends paid to the Company's shareholders	14	(49,051)	(19,446)
Net cash generated from financing activities		598,544	426,125
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,083,103)	750,842
Cash and cash equivalents at beginning of year	28	1,851,769	1,010,743
Effect of foreign exchange rate changes, net		104,857	90,184
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	873,523	1,851,769

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

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 Hong Kong Exchanges and Clearing Limited ("HKEx"), 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 HKEx on 10 December 1999. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company and its subsidiaries (collectively referred to as the "Group") were mainly engaged in real estate development and hotel operations in the Mainland China.

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

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The results of subsidiaries are 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. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is 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 is recognised as goodwill.

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 twelve months. The Group's current assets include assets (such as development held or under development for sale) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the balance sheet date.

Foreign currencies

(a) Functional and presentation currencies

Items included in the financial statements of each of the Group's entities 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 HKEx, Hong Kong dollars ("HK$") is chosen as the presentation currency to present the consolidated financial statements.

(b) Transactions and balances

Foreign currency transactions are initially recorded using the 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 balance sheet date. All differences are taken to the income statement. 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 for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average 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 at the dates of the transactions); and

(iii) all resulting exchange differences are included in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
HK(IFRIC) – Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC) – Int 12	*Service Concession Arrangements*
HK(IFRIC) – Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 IMPACT OF 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 and HKAS 27 Amendments	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* [1]
HKFRS 1 (Revised)	First-time Adoption of HKFRS [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosure-Improving Disclosures about Financial Instruments* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]

HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [6]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement-Embedded Derivatives* [5]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 October 2008

5 Effective for annual periods ending on or after 30 June 2009

6 Apply prospectively for transfer of assets from customers received on or after 1 July 2009

* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

HKFRS 8, which will replace 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 expects to adopt HKFRS 8 from 1 January 2009.

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 will include 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 expects to adopt HKAS 1 (Revised) from 1 January 2009.

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. 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 a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) 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 calculated as the higher of an asset's fair value less costs to sell and its value in use.

In addition, items 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.

(b) HKAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(c) 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.

(d) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

(e) 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.

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.

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 balance sheet 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 income statement and consolidated reserves, respectively. 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.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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 (group of cash-generating units) 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.

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 (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

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 the income statement 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 each reporting date 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 the income statement 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.

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); or

(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);

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 the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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 principal annual rates used for this purpose are as follows:

Buildings	Shorter of 40 years or the remaining terms of the leases, which range from 35 to 40 years
Leasehold improvements	Shorter of the remaining period of the lease or useful life of 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 balance sheet date.

An item of property, plant and equipment 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 the income statement 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.

Investment properties

Investment properties are interests in land and buildings 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 balance sheet date.

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

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement 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 the income statement. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

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 the income statement 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 the operating leases net of any incentives received from the lessor are charged to the income statement 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.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. 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.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. 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.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with policies set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment.

Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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 other valuation models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 assets

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 the income statement, is transferred from equity to the income statement. A provision for impairment is made for an available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and 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. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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.

Derivatives, including 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 the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis 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.

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 instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host debt component (as a liability). Transaction costs are apportioned between the host debt and derivative component 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 liability. The portion relating to the derivative component is recognised immediately in the income statement.

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 the income statement.

Derivative financial instruments

With the exception of the derivatives embedded in the Group's convertible bonds and Guaranteed Notes, the Group does not hold or issue any derivative financial instrument either for hedging or for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

Properties held or under development

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value. Properties under development for long-term investment are stated at cost less any accumulated impairment losses.

The costs of properties held or under development consist of construction expenditures and borrowing costs directly attributable to the construction of such properties and other direct costs. 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.

No depreciation is provided on properties held or under development for sale, and properties under development for long-term investment.

Inventories

Inventories mainly comprise food, beverages and operating supplies and are stated at the lower of cost or net realisable value. Cost is determined on weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, 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 balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, etc.

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 balance sheet date 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 the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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 goodwill or 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 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.

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 each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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.

Sale of network equipment

Revenue from the sale of network equipment is recognised on 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 leasing

Revenue from property leasing is recognised on a straight-line basis.

Property management income

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

Hotel operation

Revenue from hotel operation 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 right to receive payment is established.

Other employee benefits

Pursuant to the People's Republic of China ("PRC") laws and regulations, contributions to the basic old age insurance for the Group's local staff have been made monthly to a government agency based on 19%-22% of the standard salary set by the government. The government agency is responsible for the pension liabilities relating to such staff on their retirement. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's monthly salary are made by the employer and the Hong Kong employee, respectively. The provision and contributions have been included in the accompanying consolidated income statement 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. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a weighted average capitalisation rate of 8.02% (2007: 7.56%) has been applied to the expenditure on the individual assets.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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 and assets are not recognised on the balance sheets 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 reporting date. 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:

Operating lease commitments-Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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 2008 was HK$447 million (2007: HK$423 million). More details are given in Note 20.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2008 was HK$5,248 million (2007: HK$1,842 million). More details are given in Note 17.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. 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.

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) is determined by 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 each balance sheet date.

4. SEGMENT INFORMATION

The Group's turnover and results for the years ended 31 December 2008 and 2007 were mainly derived from property development, property leasing, hotel operation, corporate and other operations. In accordance with the Group's internal financial reporting, the Group has determined that the primary segment reporting basis is by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the majority of the Group's customers and operations are located in Mainland China.

An analysis by business segment is as follows:

	Year ended 31 December 2008				
	Property development	**Property leasing**	**Hotel operation**	**Corporate and other operations**	**Total**
Segment revenue					
External sales	3,515,811	67,663	96,886	59,505	3,739,865
Segment profit/(loss)	852,599	1,369,402	(107,322)	(135,619)	1,979,060
Finance income					152,521
Finance costs					(11,063)
Finance income-net					141,458
Share of profits and losses of associates	–	–	–	(443,186)	(443,186)
Profit before tax					1,677,332
Income tax expense					(893,471)
Profit for the year					783,861
Segment assets and liabilities					
Segment assets	12,907,980	5,354,972	1,817,715	696,060	20,776,727
Interests in associates	–	–	–	530,402	530,402
Total assets	12,907,980	5,354,972	1,817,715	1,226,462	21,307,129
Segment liabilities	9,696,931	1,871,065	55,297	1,810,475	13,433,768
Total liabilities	9,696,931	1,871,065	55,297	1,810,475	13,433,768
Other segment information:					
Depreciation	6,493	112	91,484	525	98,614
Capital expenditure	3,185,900	126,161	256,256	1,512	3,569,829
Fair value gain on derivative financial liabilities, net	–	–	–	7,240	7,240
Fair value gain on investment properties	–	1,394,587	–	–	1,394,587
Impairment loss charges	–	–	38,827	104,882	143,709

	Year ended 31 December 2007				
	Property development	Property leasing	Hotel operation	Corporate and other operations	Total
Segment revenue					
External sales	3,209,511	40,846	39,030	61,059	3,350,446
Segment profit/(loss)	555,733	968,581	(76,503)	206,322	1,654,133
Finance income					187,161
Finance costs					(140,105)
Finance income-net					47,056
Share of profits and losses of associates	–	–	–	(31,021)	(31,021)
Profit before income tax					1,670,168
Income tax expense					(641,960)
Profit for the year					1,028,208
Segment assets and liabilities					
Segment assets	13,614,565	3,177,016	1,388,794	469,488	18,649,863
Interests in associates	–	–	–	972,668	972,668
Total assets	13,614,565	3,177,016	1,388,794	1,442,156	19,622,531
Segment liabilities	9,525,136	1,314,449	50,203	2,149,388	13,039,176
Total liabilities	9,525,136	1,314,449	50,203	2,149,388	13,039,176
Other segment information:					
Depreciation	4,359	911	28,517	642	34,429
Capital expenditure	4,896,315	707,507	74,387	778	5,678,987
Fair value loss on derivative financial liabilities	–	–	–	51,825	51,825
Fair value gain on investment properties	–	942,269	–	–	942,269
Impairment loss charges	3,672	–	–	7,262	10,934

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; and gross rental income received and receivable from investment properties during the year.

An analysis of revenue is as follows:

	2008	2007
Sale of development properties	3,705,960	3,395,319
Revenue from construction of infrastructure for an intelligent network	4,103	33,162
Sale of network hardware and installation of intelligent home equipment	6,340	5,264
Revenue from property leasing (Note 17)	72,939	42,156
Property management income	53,443	24,206
Hotel operation	102,010	41,095
	3,944,795	3,541,202
Less: sales taxes (a)	(204,930)	(190,756)
	3,739,865	3,350,446

(a) Sales taxes

Sales taxes applicable to the Group represent business tax and surcharges. The respective tax rates are as follows:

Types of taxes	Applicable tax rates	Tax base
Business tax	5%	Revenue from the sale and pre-sale of properties, hotel operation, installation of intelligent home equipment and property leasing.
	3%	Net income received from the construction of infrastructure for an intelligent network after deducting amounts payments to subcontractors.
City development tax	1% to 7%	Business tax and value added tax ("VAT") for the period
Education supplementary tax	3% to 4%	Business tax and VAT for the period

6. OTHER GAINS-NET

	2008	2007
Fair value gain on investment properties (Note 17)	1,394,587	942,269
Derivative financial instruments at fair value through profit or loss-fair value gain/(loss), net	7,240	(51,825)
Gain/(loss) on disposal of property, plant and equipment, net	542	(175)
Loss from dilution of interests in an associate (Note 22(a)(i))	(41,616)	–
Gain on disposal of interest in an invested company (Note 23(c))	178,326	–
Impairment of property, plant and equipment (Note 16)	(38,827)	–
Gain from redemption of CB2	12,783	–
Impairment of an interest in an associate (Note 22)	(104,320)	–
Excess of fair value of identifiable net assets acquired over the cost of business combinations	–	112,170
Gain from disposal of interests in an associate (including changes in fair value of convertible notes issued by the associate to the Group)	–	293,982
Others	2,502	6,317
	1,411,217	1,302,738

7. EXPENSE BY NATURE

	2008	2007
Cost of inventories (excluding depreciation)	2,757,227	2,685,412
Depreciation of property, plant and equipment (Note 16)	98,614	34,429
Employee benefit expense (including directors' emoluments)		
– Wages and salaries	75,465	55,225
– Other social welfare	17,656	15,748
	93,121	70,973
Operating lease payment in respect of buildings	9,308	8,245
Auditors' remuneration	4,215	4,938
Accounts receivable provision (Note 27)	562	10,934
Commission for sale of properties	8,290	54,871
Advertising costs	51,169	44,411
Miscellaneous tax	31,538	15,553
Transportation fee	12,897	8,550
Others	105,081	61,704
	3,172,022	3,000,020

8. FINANCE INCOME

	2008	2007
Finance income		
Interest income on bank deposits	16,727	45,533
Net foreign exchange gain	135,794	141,628
	152,521	187,161

9. FINANCE COSTS

	2008	2007
Interest expense:		
Interest on bank borrowings and other borrowings – wholly repayable within five years	298,908	197,578
Interest on the Guaranteed Notes – wholly repayable within five years (Note 32)	140,915	–
Interest on the Guaranteed Notes – wholly repayable beyond five years (Note 32)	–	140,724
Interest on CB2 – wholly repayable within five years (Note 33)	4,220	7,349
Interest on CB3 – wholly repayable within five years (Note 33)	100	–
	444,143	345,651
Less: Amount capitalised in properties held or under development for sale, properties under development for long-term investment and construction in progress	(433,080)	(205,546)
Finance costs	11,063	140,105

During the year ended 31 December 2008, the weighted average interest capitalisation rate was 8.02% (2007: 7.56%).

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:

	2008			
Name of director	**Salaries**	**Fees**	**Other benefits**	**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

	2007			
Name of director	**Salaries**	**Fees**	**Other benefits**	**Total**
Executive directors				
– Mr. Shi Jian	2,000	–	–	2,000
– Mr. Li Yao Min	1,550	–	–	1,550
– Mr. Yu Hai Sheng	2,000	–	–	2,000
– Mr. Jiang Xu Dong	1,280	–	–	1,280
– Mr. Lee Wai Man	1,111	–	–	1,111
– Mr. Qian Reng Hui (resigned in 2007)	375	–	–	375
Non-executive directors				
– Mr. Cheung Wing Yui	–	300	–	300
– Mr. Jin Bing Rong	–	225	–	225
– Mr. Wang Ru Li (resigned in 2007)	–	–	–	–
Independent non-executive directors				
– Mr. Yeung Kwok Wing	–	150	–	150
– Mr. Geng Yu Xiu	–	120	–	120
– Mr. E Hock Yap	–	200	–	200
– The Lord Killearn (resigned in 2007)	–	50	–	50
– Mr. Sang Rong Lin (resigned in 2007)	–	–	–	–
Total	8,316	1,045	–	9,361

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 2008 and 2007.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2008 and 2007.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2007: five) directors, details of whose remuneration are set out in Note 10 above. Details of the remuneration of the remaining one non-director, highest paid employee for 2008 are as follows:

	2008	2007
Salaries, housing allowances, other allowances and benefits in kind	2,000	–
	2,000	–

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

	2008	2007
Nil – HK$1,000,000	–	–
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	1	–

12. TAX

	2008	2007
Current taxation		
– Mainland China enterprise income taxation (a)	258,230	256,832
– Mainland China land appreciation taxation (c)	31,827	333,903
	290,057	590,735
Deferred taxation (Note 34)		
– Mainland China enterprise income taxation	329,456	51,225
– Mainland China land appreciation taxation	91,161	–
– Mainland China withholding taxation (d)	182,797	–
	603,414	51,225
Total tax charge for the year	893,471	641,960

(a) Mainland China enterprise income tax

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

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of transaction and revenue recognition, based on certain estimations. There was no outstanding balance of prepaid income tax as of 31 December 2008 (2007: approximately HK$9.5 million).

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016. If taxes on profits assessable elsewhere, it would be calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(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 transaction and revenue recognition, generally based on 1% to 2% on advances received. Prepaid LAT had been recorded in "prepaid income tax" with an amount of approximately HK$5.3 million as of 31 December 2008 (2007: approximately HK$14.3 million).

(d) Withholding tax

Pursuant to the new PRC Corporate Income Tax Law, 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.

A reconciliation of the tax expense applicable to profit before tax using the Group's general taxation rate of 25% (2007: 33%) to the tax expense at the Group's effective tax rate is as follows:

	2008	2007
Profit before tax	1,677,332	1,670,168
Tax at the applicable tax rate of 25% (2007: 33%)	419,333	551,155
Effect on opening deferred tax due to change in tax rate	–	(152,846)
Lower tax rates for some subsidiaries	–	(1,035)
Tax impact of results attributable to associates	110,797	10,237
Impact of land appreciation tax (which is itself classified as part of income tax) as it is deductible for income tax purposes	(30,747)	(110,188)
Income not subject to tax	(9,007)	(262,149)
Tax losses not recognised	97,310	124,429
Effect of withholding tax at 5% or 10% on the distributable profits of the Group's PRC subsidiaries	182,797	–
Tax in relation to transfer of investment properties within the Group	–	148,454
Mainland China enterprise income tax	770,483	308,057
Mainland China land appreciation taxation (including deferred land appreciation taxation)	122,988	333,903
Total tax expense for the year at the Group's effective tax rate	893,471	641,960

The share of tax attributable to associates amounting to HK$54.7 million (2007: HK$10.8 million) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of HK$4,069 thousand (2007: HK$330,987 thousand) which has been dealt with in the financial statements of the Company (Note 30(b)).

14. DIVIDENDS

	2008	2007
Proposed final dividend – nil (2007: HK$0.035) per ordinary share.	–	96,000

The dividends paid during the years ended 2008 and 2007 were approximately HK$49,050,875 (HK$0.035 per share) and approximately HK$19,445,536 (HK$0.020 per share) respectively. No final dividend was proposed by the Board in respect of financial year 2008 through the date when the financial statements were approved and authorised for issue.

Pursuant to a resolution passed at the general meeting on 21 May 2008, the Company offered to its shareholders scrip dividends equivalent to HK$0.035 per ordinary share of HK$0.10 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, as adjusted to reflect the bonus issue.

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 33). The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense and fair value gain less any tax effect.

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

	2008	2007
Profit attributable to ordinary equity holders of the Parent, used in the basic earnings per share calculation	247,936	1,019,040
Fair value gain on the derivative component of the convertible bonds, net of tax (Note 33)	(7,240)	(12,458)
Interest expenses recognised on the host debt component of convertible bonds, net of tax (Note 9)	100	7,349
Profit attributable to ordinary equity holders of the parent before the above impact arising from convertible bonds	240,796	1,013,931

	Number of shares	
	2008	2007
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	2,783,881	2,372,406
Effect of dilution – weighted average number of ordinary shares: Convertible bonds (thousands)	2,466	52,926
	2,786,347	2,425,332

16. PROPERTY, PLANT AND EQUIPMENT

Group

	2008					
	Buildings	Leasehold improvement	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
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	1,083,612	2,813	729,815	43,038	–	1,859,278
Accumulated depreciation and impairment						
Beginning of year	9,878	943	26,899	16,206	–	53,926
Depreciation charge	24,062	153	68,152	6,247	–	98,614
Impairment	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	60,492	1,155	109,741	19,621	–	191,009
Net carrying amount						
Balance, end of year	1,023,120	1,658	620,074	23,417	–	1,668,269
Balance, beginning of year	742,729	1,707	510,506	23,774	151,240	1,429,956

	2007					
	Buildings	Leasehold improvement	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	–	1,779	8,627	32,993	1,119,343	1,162,742
Acquisition of subsidiaries	–	1,549	2,734	8,002	–	12,285
Additions.	–	–	15,361	4,853	213,066	233,280
Transfer	719,124	–	489,752	–	(1,208,876)	–
Disposals.	–	(829)	(2,552)	(8,960)	–	(12,341)
Exchange realignment .	33,483	151	23,483	3,092	27,707	87,916
End of year	752,607	2,650	537,405	39,980	151,240	1,483,882
Accumulated depreciation						
Beginning of year	–	1,651	5,230	13,833	–	20,714
Acquisition of subsidiaries	–	–	2,304	293	–	2,597
Depreciation charge . .	9,516	31	19,330	5,552	–	34,429
Disposals.	–	(829)	(933)	(4,752)	–	(6,514)
Exchange realignment .	362	90	968	1,280	–	2,700
End of year	9,878	943	26,899	16,206	–	53,926
Net carrying amount						
Balance, end of year . .	742,729	1,707	510,506	23,774	151,240	1,429,956
Balance, beginning of year	–	128	3,397	19,160	1,119,343	1,142,028

Depreciation expenses of approximately HK$87,760 thousand (2007: approximately HK$28,517 thousand) had been expensed in cost of goods sold, approximately HK$1,418 thousand (2007: approximately HK$41 thousand) in selling and marketing costs and approximately HK$9,436 thousand (2007: approximately HK$5,871 thousand) in administrative expenses.

During the year ended 31 December 2008, the building that was transferred from construction in progress represents a 23-storey hotel building known as "Shenyang Rich Gate Lexington Hotel". The hotel commenced operation during the year ended 31 December 2008. The hotel stands on part of one land parcel with a lease period of 40 years and comprises about 620 rooms plus two floors of restaurants. During the year ended 31 December 2007, the building that was transferred from construction in progress represents a 50-storey hotel building known as "Skyway Hotel", (formerly known as "Oasis Skyway Garden Hotel"). The hotel commenced operation during the year ended 31 December 2007. The hotel stands on two adjacent land parcels with a lease period of 50 years and comprises about 654 rooms plus two floors of restaurants.

As of 31 December 2008 and 2007, the buildings were pledged as collateral for the Group's bank loans and facilities (Note 31).

Impairment of property, plant and equipment

Skyway Hotel and Shenyang Rich Gate Lexington Hotel held by the Group commenced operations in May 2007 and July 2008, respectively. Due to the current 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 hotel operations, and as a result, an impairment loss of HK$38,827 thousand, being the excess of their carrying amount over their recoverable amount, was recognised in the

Group's financial statements for the year ended 31 December 2008. The recoverable amount was determined based on value in use and was determined at the estimated future cash flows discounted at a pre-tax rate of 11% per annum.

Company

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

	2007			
	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Total
Cost				
Beginning of year	976	653	3,452	5,081
Additions	–	109	–	109
Disposals	–	(162)	(3,568)	(3,730)
Exchange realignment	71	46	116	233
End of year	1,047	646	–	1,693
Accumulated depreciation				
Beginning of year	848	570	1,505	2,923
Depreciation charge	31	34	–	65
Disposals	–	(162)	(1,555)	(1,717)
Exchange realignment	64	36	50	150
End of year	943	478	–	1,421
Net carrying amount				
Balance, end of year	104	168	–	272
Balance, beginning of year	128	83	1,947	2,158

17. INVESTMENT PROPERTIES

Group

	2008	2007
At beginning of year	1,842,375	765,328
Transfer from properties under development for long-term investment (Note 19)	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)	1,394,587	942,269
Additions	–	41,553
Exchange realignment	142,715	93,225
At end of year	5,248,073	1,842,375

The investment properties as at 31 December 2008 mainly represent three properties as follows:

A 3-storey shopping mall at the town area of Shanghai City with a fair value of approximately HK$1,129 million. The periods of operating leases entered into for the shopping mall range from 1 to 7 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$1,210 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$2,870 million. The periods of operating leases entered into for the shopping mall range from 1 to 15 years.

The valuations of investment properties are performed by management at each reporting date and reviewed at least annually by an external valuer. As at 31 December 2008, the investment properties were revalued by Jones Lang LaSalle Sallmanns Limited, an independent professionally qualified valuer, using discounted cash flow projections or Income Approach.

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

	2008	2007
In the PRC, held on:		
Leases of over 50 years	2,361,125	1,826,356
Leases of between 10 and 50 years	2,886,948	16,019
	5,248,073	1,842,375

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

The following amounts relating to the investment properties have been recognised in the consolidated income statement:

	2008	2007
Rental income (Note 5)	72,939	42,156
Direct operating expenses arising from investment properties that generate rental income	24,873	–

18. PREPAID LAND LEASE PAYMENTS

Group

	2008	2007
In the PRC, held on:		
– Leases of over 50 years	3,505,965	3,224,599
– Leases of between 10 and 50 years	4,034,213	3,438,411
	7,540,178	6,663,010

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

	2008	2007
At beginning of year	6,663,010	2,833,618
Additions	1,032,067	783,413
Acquisition of subsidiaries (Note 44)	199,439	3,749,796
Disposals with the sale of completed properties	(327,373)	(557,048)
Amortisation capitalised as properties under development	(199,426)	(61,589)
Transfer to investment properties (Note 17)	(246,126)	–
Disposal of a subsidiary	–	(469,886)
Exchange realignment	418,587	384,706
At end of year	7,540,178	6,663,010
Analysed as:		
Non-current: In relation to investment properties and properties under development for long-term investment	885,914	1,108,527
Current: In relation to properties held or under development for sale	6,654,264	5,554,483
	7,540,178	6,663,010

As of 31 December 2008 and 2007, the Group's leasehold land of approximately HK$2,263 million had been pledged as collateral for the Group's bank loans and facilities (see Note 31 for details).

19. PROPERTIES UNDER DEVELOPMENT FOR LONG-TERM INVESTMENT

Group

	2008	2007
At 1 January	880,124	277,325
Additions (including capitalisation of interest and amortisation of leasehold land)	102,377	555,695
Transfer to investment properties (Note 17)	(1,028,699)	–
Exchange realignment	46,198	47,104
At 31 December	–	880,124

As at 31 December 2007, properties under development for long-term investment were located in Shenyang, the PRC.

20. GOODWILL

Group

	2008	2007
Cost		
At beginning of year	422,627	75,512
Acquisition of subsidiaries	–	330,467
Exchange realignment	24,868	16,648
At end of year	447,495	422,627
Accumulated impairment		
At 1 January and 31 December	–	–
Net carrying amount		
Balance, end of year	447,495	422,627
Balance, beginning of year	422,627	75,512

Impairment testing of goodwill

Goodwill acquired through certain business combinations as been allocated to two major cash generating-units, the Albany Oasis Garden and the 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 city of Shengyang and Shanghai, respectively, and will be available for sale in the forthcoming two to nine years.

The recoverable amounts for both the Albany Oasis Garden and Qinhai Oasis Garden 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 nine-year and five-year period, respectively, approved by management. The pre-tax discount rate applied to the cash flow projections is 16% and 16.20%, respectively, and the cash flows 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.

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

	2008	2007
Property development project Qinhai Oasis Garden	86,026	82,196
Property development project Albany Oasis Garden	359,058	338,160

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 the 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 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 trend.

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

21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

Company

	2008	2007
Unlisted equity interests, at cost	4,565,875	4,260,440

The following is a list of the principal subsidiaries as at 31 December 2008:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2008	2007	Issued and paid-up capital	Authorised share capital	Principal activities
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 Hangtou Govern Real Estate Co., Ltd. ("Hangtou 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. (Formerly known as "Shanghai Qinhai Real Estate Co., Ltd"), ("Jinxin")	PRC 28 October 2002	100%	100%	RMB700,000,000	RMB700,000,000	Property development

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2008	2007	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Skyway Hotel Co., Ltd. (Formerly known as "Shanghai Skyway Landis Hotel Co., Ltd"), ("Skyway")	PRC 9 December 2002	56%	56%	RMB200,000,000	RMB200,000,000	Hotel operation
Shenyang Huarui Shiji Investment Development Limited ("Huarui Shiji Investment")	PRC 22 December 2004	51%	51%	US$52,500,000	US$52,500,000	Property development
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management")	PRC 30 October 2007	51%	51%	US$10,000,000	US$10,000,000	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") (i)	PRC 24 May 2006	50.36%	30.22%	RMB1,000,000	RMB1,000,000	Property development
Shanghai Mengshan Real Estate Co.,Ltd ("Mengshan") (ii)	PRC 12 June 2002	–	29.91%	RMB10,000,000	RMB10,000,000	Property development
Shanghai Shangzhi Real Estate Development Co., Ltd ("Shangzhi Real Estate") (ii)	PRC 16 October 2008	49.86%	–	RMB10,000,000	RMB10,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao")	PRC 4 December 2000	70%	70%	RMB639,500,000	RMB750,000,000	Property development
Haikou Century Richgate Business Administration Co., Ltd ("Haikou Century") (iii)	PRC 25 June 2008	79%	–	RMB296,000,000	RMB320,000,000	Property development
Shenyang Lukang Real Estate Ltd.("Lukang") (iv)	PRC 13 July 2007	100%	–	US$5,000,000	US$5,000,000	Property development
Shenyang Richgate Lexington Hotel Management. Co., Ltd. ("Lexington Hotel") (v)	PRC 25 December 2007	51%	51%	US$120,000	US$120,000	Hotel operation

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 with limited liability entities.

(i) On 2 January 2008, the Group, through its 50.36% owned subsidiary, Zhufu, acquired an additional 40% of the voting shares of Shanghai Liangshi Enterprises Ltd. ("Liangshi"), taking its ownership to 100%. Cash consideration of RMB400 thousand (HK$427 thousand) was paid. The book value of the net assets of Liangshi was approximately RMB1 million (HK$1,068 thousand), and the book value of the additional interest acquired was approximately RMB400 thousand (HK$427 thousand), which is the same as the consideration.

(ii) 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 Mengshan, an indirect 29.91% owned subsidiary of the Group. 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 spinned 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. Upon completion of the De-merger, the paid up capital of Mengshan was reduced from RMB20 million to RMB10 million.

After completion of the De-merger in October 2008, although the Company's subsidiary still owns 99% equity interest in Mengshan, based on the terms of the agreements between the Group and the other shareholder of Mengshan, the Group has no voting rights (except for certain protective rights, i.e., the voting rights to make amendments on Articles of Association, liquidation of Mengshan and decision to increase registered or paid-up capital or reduce capital in Mengshan) and will not benefit from any profits or suffers losses arising from the operations of Mengshan. Thus, Mengshan is no longer a subsidiary of the Group.

(iii) Haikou Century was established under the laws of the PRC on 25 June 2008 with a registered capital of RMB320 million. Haikou Century is owned as to 79% by the Group.

(iv) During the year ended 31 December 2008, the Group acquired a 100% equity interest in Lukang. The details of the business combination are disclosed in Note 44.

(v) Lexington Hotel was established under the laws of the PRC on 25 December 2007 with a registered capital of US$120 thousand (approximately HK$930 thousand). Lexington Hotel is owned as to 51% 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 (2007: HK$74.1 million) to Anderson Shanghai which earns interest at 3% (2007: 3%) per annum and a US$4.5 million loan to Huarui Shiji Investment which earns interest at the prevailing London Interbank Offered Rate per annum, the advances to other subsidiaries were interest-free.

22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES

(a) Interests in associates

Group

	2008	2007
Share of net assets	634,722	972,668
Less: Provision for impairment	(104,320)	–
	530,402	972,668
Market value of listed shares	114,354	1,662,728

China New Town Development Company Limited ("CNTD"), a company registered in the British Virgin Island and listed on the Singapore Stock Exchange, was a 32.03% owned associate of the Group as at 31 December 2008. CNTD incurred significant losses from operations during its fiscal year ended 31 December 2008, and the closing price of its shares on 31 December 2008 was SG$0.040 per share which was significantly lower than the carrying basis of its investment in CNTD held by the Group. Based on these indicators, the Group performed an impairment assessment on its investment in CNTD and recorded a HK$104 million impairment loss for the year ended 31 December 2008, being the excess of the Group's carrying amount over its recoverable amount (HK$449 million, the value in use based on estimated future cash flows discounted at a pre-tax rate of 17.6 per cent per annum).

Particulars of the Group's associates as at 31 December 2008 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
		2008	2007			
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 electron products, and 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 netware and construction of broadband fibre projects
China New Town Development Company Limited ("CNTD") (i)	BVI 4 January 2006	32.03%	45.15%	RMB 2,115,240,000	10 billion shares (No par)	Land infrastructure development

(i) Change in ownership of equity interests in CNTD

During the period from March 2008 to May 2008, the Group purchased a total of 9,776,000 shares in CNTD from the Singapore Stock Exchange for a total consideration of approximately HK$14 million, which has increased the Group's equity interest in CNTD by 0.70%.

On 12 September 2008, CNTD issued 525 million shares, together with an equity grant of 80 million shares, as part of the consideration for the repurchase of its convertible bonds. The issuance of the new shares by CNTD has led to a dilution of interest held by the Group in CNTD from 45.85% to 32.03%. Thus, a loss on dilution of HK$41,616 thousand was recognised in the consolidated income statement (Note 6).

Subsequent to 31 December 2008, the Group entered into a share Subscription Agreement with CNTD in March 2009. Please refer to Note 48 for details.

(ii) Extracts of financial information of principal associates

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

(1) CNTD

	2008	2007
Assets and liabilities in the consolidated financial statements of CNTD and its subsidiaries		
Current assets	4,515,600	5,307,140
Non-current assets	2,741,597	2,834,912
Current liabilities	(3,644,532)	(4,658,793)
Non-current liabilities	(1,258,617)	(631,153)
Net assets	2,354,048	2,852,106
Attributable to:		
Minority interest	407,190	534,930
Equity holders of CNTD	1,946,858	2,317,176
	2,354,048	2,852,106
Results		
Revenue and other income	652,192	488,745
Total expense	(1,925,953)	(787,905)
Tax	164,005	19,312
Losses after tax	(1,109,756)	(279,848)
Attributable to:		
Minority interest	(159,387)	15,784
Equity holders	(950,369)	(295,632)
	(1,109,756)	(279,848)

(2) Broadband

	2008	2007
Assets	216,177	240,616
Liabilities	(89,407)	(138,558)
Revenues	139,285	84,320
Profit	26,996	15,323

(b) Amounts due from associates

	Group		Company	
	2008	2007	2008	2007
Amounts due from:				
– CNTD	132,438	4,012	132,438	3,868
– Broadband	6,530	7,036	–	–
	138,968	11,048	132,438	3,868

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 for 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 will not be binding and the earnest money will be refunded to the Company, unless approvals for the Company to enter into the aforesaid assets purchase transaction is obtained from the shareholders of both the Company and CNTD by 30 June 2009 (that was recently 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 Group's account payable balances with associates are disclosed in Note 39 to the financial statements.

23. OTHER NON-CURRENT ASSETS

	Group		Company	
	2008	2007	2008	2007
Prepayment for acquisition of a company (a)	279,042	–	279,042	–
Prepayment for acquisition of an additional equity interest in a subsidiary (b)	–	41,801	–	41,801
Equity interest in Meilan Huafu (c)	–	21,358	–	–
	279,042	63,159	279,042	41,801

(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 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 conditions for the completion of the acquisition are not met by 30 June 2009.

(b) On 29 June 2007, the Group as transferee and the minority shareholder of Zhufu as transferor (the "Transferor") entered into a transfer agreement (the "Transfer Agreement") pursuant to which the Group agreed to acquire and the Transferor agreed to sell a 49% interest in Zhufu. As of 31 December 2007, the Group had paid approximately HK$42 million in cash to the Transferor which was recorded under other non-current assets.

On 3 December 2008, the Group and the Transferor have agreed to abort the acquisition and entered into the Termination Agreement, owing to the non-fulfilment of the conditions required which include that all approvals and/or consent necessary or reasonably required by the Group. The transferor has refunded the advance payment of HK$42 million to the Group.

(c) As at 31 December 2007, the Group had a 10% interest in Shanghai Meilan Huafu Real Estate Co., Ltd. ("Meilan Huafu") amounting to HK$21 million, and this was recorded under other non-current assets in the balance sheet.

On 19 December 2008, the 10% interest was disposed of at a consideration of RMB179 million (equivalent to HK$200 million). Thereafter, the Group had no interest in Meilan Huafu, and a gain on disposal of approximately HK$178 million was recognised (Note 6) in the income statement for the year ended 31 December 2008.

24. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

Group

	2008	2007
At cost		
– In Shanghai City, the PRC	2,631,348	3,238,752
– In Shenyang City, the PRC	276,324	870,771
– In Haikou City, the PRC	188,841	–
	3,096,513	4,109,523

As of 31 December 2008 and 2007, 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).

25. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		Company	
	2008	2007	2008	2007
Prepaid business tax	49,293	37,677	–	–
Prepayment for inventory purchased	14,141	33,252	–	–
Others	2,970	7,962	555	638
	66,404	78,891	555	638

26. OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
Amounts due from minority shareholders of subsidiaries	2,610	20,743	–	–
Earnest money paid to a third party for future cooperation (a)	–	202,905	–	–
Receivables in connection with acquisition of Konmen Investment Limited (b)	545,211	513,084	–	–
Reimbursable amounts from construction companies	19,514	18,507	–	–
Deposit paid to an agency to bid for a parcel of land (c)	–	170,867	–	–
Others	74,810	180,358	–	252
	642,145	1,106,464	–	252

(a) On 12 December 2007, the Group signed a letter of intent with a third party company (the "Cooperator") whereby both parties agreed to jointly develop a project on the presumption that the Cooperator could obtain the right to develop the project from another party through a separate transaction. In connection with this cooperation, the Group paid earnest money amounting to RMB190 million to the Cooperator. The earnest money was interest-free. In March 2008, the earnest money was fully recovered as the Cooperator failed to obtain the right to develop the project.

(b) 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. The market share price on the acquisition date was HK$3.36 per share.

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

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.

In connection with the above, RMB515 million (HK$549 million) were received by the Group during 2007. As of 31 December 2008, the outstanding receivable in respect of this transaction amounted to RMB480 million (HK$545 million)(2007: RMB480 million (HK$513 million)).

(c) On 12 December 2007, the Group signed a letter of intent with a third party agency whereby the Group engaged the agency to bid for a parcel of land. In connection with this transaction, the Group paid a deposit amounting to HK$171 million to the agency. The deposit was interest-free. In February 2008, the deposit was fully recovered as the agency did not win the bid.

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

	2008	2007
Accounts receivable	28,085	65,751
Less: Provision for doubtful accounts	(9,920)	(10,934)
	18,165	54,817

An aging analysis of accounts receivable is set out below:

	2008	2007
Within 1 year	17,574	53,238
1-2 years	591	1,579
Over 2 years – impaired	9,920	10,934
	28,085	65,751

The receivables that are aged within two years are neither past due nor impaired. They mainly relate to receivables from customers with reasonably good credit worthiness. There is no significant collateral or any other credit enhancement over these balances.

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

	2008	2007
At beginning of year	10,934	1,977
Impairment losses recognised (Note 7)	562	10,934
Amount written off as uncollectible	(2,237)	(1,977)
Exchange adjustment	661	–
At end of year	9,920	10,934

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of approximately HK$10 million (2007: approximately HK$11 million) with a carrying amount of HK$10 million (2007: HK$11 million). The individually impaired accounts receivable are outstanding for over two years and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

28. CASH AND BANK BALANCES

	Group		Company	
	2008	2007	2008	2007
Cash in hand	1,557	1,570	14	12
Demand and notice deposits	843,618	1,850,199	170,673	269,470
Time deposits with original maturity of no more than 3 months when acquired	28,348	–	–	–
Cash and cash equivalents	873,523	1,851,769	170,687	269,482
Time deposits with original maturity of over 3 months	4,997	–	–	–
Pledged bank deposits (a)	181,426	85,494	–	–
Restricted bank deposits (b)	515,530	2,096	–	–
Cash and bank balances	1,575,476	1,939,359	170,687	269,482

(a) As at 31 December 2008, bank deposits of approximately HK$181 million (2007: HK$85 million) were pledged as securities for the bank borrowings.

(b) Restricted bank deposits are funds designated for relocating existing residents under a development project.

The carrying amount of the cash and bank balance which are denominated in the following currencies are:

	Group		Company	
	2008	2007	2008	2007
	HK$ equivalent HK$'000	HK$ equivalent HK$'000	HK$ equivalent HK$'000	HK$ equivalent HK$'000
HK$	169,601	263,207	168,655	251,732
US$	5,102	34,398	2,005	17,750
RMB	1,400,773	1,641,754	27	–
	1,575,476	1,939,359	170,687	269,482

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.

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 within three months earn interest rate at respective short-term 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 and the pledged deposits approximate to their fair values.

29. SHARE CAPITAL AND PREMIUM

Group and Company

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

	Number of shares (thousands)	Amount		
		Ordinary shares	Share premium	Total
At 1 January 2007	2,145,060	214,506	1,828,080	2,042,586
Issue of scrip dividends	9,061	906	22,742	23,648
Issue of shares upon conversion of convertible bonds	57,407	5,740	115,932	121,672
Issue of shares – acquisition of a subsidiary	526,316	52,632	1,715,789	1,768,421
At 31 December 2007	2,737,844	273,784	3,682,543	3,956,327

The total authorised number of ordinary shares is 8,000 million shares (2007: 4,000 million shares) with a par value of HK$0.10 per share (2007: HK$0.10 per share). All issued shares are fully paid.

(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 HKEx for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the HKEx on the relevant offer date.

No share options were outstanding as at 31 December 2008 and 2007.

(b) Pursuant to a resolution passed at the general meeting on 21 May 2008, the Company offered to its shareholders scrip dividends equivalent to HK$0.035 per ordinary share of HK$0.10 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 (see Note 14). As a result, the following additional shares were issued during the year.

	Number of new ordinary shares issued	Issue price per ordinary share	Issue date
In respect of final dividends for the year ended 31 December 2007	46,037,076	HK$1.016	16 June 2008

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 of the financial statements.

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory accounts. All statutory reserves are created for specific purposes.

Companies within the Group, 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.

(b) Company

	Share option reserve	Exchange fluctuation reserve	Retained profits/ (Accumulated losses)	Total
Balance at 1 January 2007	248	46,505	(190,320)	(143,567)
Exchange realignment	–	215,984	–	215,984
Total income and expense for the year recognised directly in equity	–	215,984	–	215,984
Profit for the year	–	–	330,987	330,987
Total income and expense for the year	–	215,984	330,987	546,971
Dividends relating to 2006				
– Cash dividends	–	–	(19,446)	(19,446)
– Scrip dividends (Note 29)	–	–	(23,648)	(23,648)
Balance at 31 December 2007	248	262,489	97,573	360,310

	Share option reserve	Exchange fluctuation reserve	Retained profits	Total
Balance at 1 January 2008	248	262,489	97,573	360,310
Exchange realignment	–	264,349	–	264,349
Total income and expense for the year recognised directly in equity	–	264,349	–	264,349
Profit for the year	–	–	4,069	4,069
Total income and expense for the year	–	264,349	4,069	268,418
Dividends relating to 2007				
– Cash dividends (Note 14)	–	–	(49,051)	(49,051)
– Scrip dividends (Note 29)	–	–	(46,774)	(46,774)
Balance at 31 December 2008	248	526,838	5,817	532,903

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group and Company

	Group		Company	
	2008	2007	2008	2007
Short-term bank borrowings				
– Secured	453,566	956,856	–	–
Current portion of long-term borrowings				
– Secured	984,266	149,532	84,000	84,000
– Unsecured	57,808	58,182	58,620	58,182
Total short-term bank borrowings and long-term borrowings current portion	1,495,640	1,164,570	142,620	142,182
Long-term bank borrowings				
– Secured	2,902,150	2,490,687	130,275	212,554
Other long-term borrowings				
– Unsecured	142,964	138,524	86,590	138,524
Total long-term borrowings	3,045,114	2,629,211	216,865	351,078
The long-term bank borrowings are repayable as follows:				
– Within 1 year	1,042,074	207,714	142,620	142,182
– Between 1 and 2 years	1,360,568	1,060,050	128,413	139,503
– Between 2 and 3 years	1,447,717	757,764	74,027	125,128
– Between 3 and 5 year	236,829	811,397	14,425	86,447
	4,087,188	2,836,925	359,485	493,260
Less: long-term borrowings, current portion	(1,042,074)	(207,714)	(142,620)	(142,182)
Long-term borrowings	3,045,114	2,629,211	216,865	351,078

Short-term bank borrowings-secured

As at 31 December 2008, a short-term bank loan of approximately HK$227 million (2007: HK$717 million) was secured by a pledge of the Group's leasehold land (Note 18) and certain bank deposits (Note 28).

As at 31 December 2008, a short-term bank loan of approximately HK$227 million (2007: HK$240 million) was secured by a joint guarantee provided by the Company and one subsidiary of the Group.

Long-term bank borrowings-secured

As at 31 December 2008, long-term bank borrowings of approximately HK$3,886 million (2007: approximately HK$2,640 million) were secured by a pledge of the Group's leasehold land, together with hotel properties, investment properties, and properties held or under development for sale.

Other long-term borrowings-unsecured

As at 31 December 2008, unsecured long-term borrowings of approximately HK$201 million from external bankers (2007: approximately HK$197 million) in connection with the termination of the cross currency swaps, entered into during the year ended 31 December 2007.

Overall collateral arrangements for bank borrowings

As at 31 December 2008, bank deposits of approximately HK$181 million (2007: approximately HK$85 million) (Note 28), leasehold land of approximately HK$2,263 million (2007: approximately HK$649 million) (Note 18), investment properties of approximately HK$5,209 million (2007: approximately HK$1,806 million) (Note 17), and properties held or under development for sale of approximately HK$1,514 million (2007: approximately HK$2,244 million) (Note 24), together with hotel properties of approximately HK$1,456 million (2007: approximately HK$1,223 million) (Note 16), were mortgaged as collateral for the Group's short-term bank borrowings, long-term bank borrowings and banking facilities disclosed in the preceding paragraphs.

The effective interest rates for these borrowings at the balance sheet date were as follows:

	2008			2007		
	HK$	**US$**	**RMB**	**HK$**	**US$**	**RMB**
Short-term bank borrowings	–	–	5.99%	–	–	6.68%
Long-term bank borrowings	4.27%	–	7.34%	6.63%	–	7.55%
Other long-term borrowings	–	6.01%	–	–	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 therefore approximate their fair values.

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

	Group		Company	
	2008	2007	2008	2007
HK$	501,678	593,658	214,275	296,555
US$	145,210	196,706	145,210	196,705
RMB	3,893,866	3,003,417	–	–
	4,540,754	3,793,781	359,485	493,260

The Group had the following undrawn credit facilities as of the balance sheet date:

	2008	2007
Floating rate loan facilities		
– expiring within 1 year	39,687	116,403
– expiring beyond 1 year	–	154,558
	39,687	270,961

During the year ended 31 December 2008, the Group has entered into the Strategic Cooperation Framework Agreements with certain banks with total amounts of RMB7 billion (equivalently HK$7.94 billion), and therefore, the Group will be entitled to apply for borrowings on the condition that proper collaterals (land use rights, properties, etc) are available to be pledged as collateral.

32. GUARANTEED NOTES

Group and Company

	US$'000
Face value of Guaranteed Notes	200,000
Less: issuance expense	(6,841)
Fair value on initial recognition	193,159

	2008		2007	
	US$'000	HK$ equivalent HK$'000	US$'000	HK$ equivalent HK$'000
At beginning of year	197,595	1,540,928	196,816	1,535,167
Foreign exchange gain	–	(9,622)	–	(319)
Add: interest expense (Note 9)	18,103	140,915	18,029	140,724
Less: payment of interest	(17,250)	(134,274)	(17,250)	(134,644)
At end of year	198,448	1,537,947	197,595	1,540,928

On 24 April 2006, the Company issued guaranteed notes maturing on 24 April 2013 (the "Maturity Date"), with an aggregate principal amount of US$ 200 million and a fixed interest rate of 8.625% per annum (the "Guaranteed Notes"). The Guaranteed Notes are guaranteed by all investment holding subsidiaries (except Anderson Shanghai) which are not incorporated in the PRC.

Interests of the Guaranteed Notes are 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:

a) prior to 24 April 2009, redeem on one or more occasions up to 35% of the aggregate principal amount of the Guaranteed Notes originally issued, at a redemption price of 108.625% of the principal amount, plus accrued and unpaid interest to the redemption date, or

b) at any time or from time to time prior to the Maturity Date, redeem all or part of the Guaranteed 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.

On 25 April 2006, the Guaranteed Notes were listed on the HKEx.

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

33. CONVERTIBLE BONDS – HOST DEBTS

Group and Company

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 this bond 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.

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 (29 December 2013). 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.

Since the conversion options embedded in the CB2 and CB3 do not meet the definition of equity instruments of the Company, the entire convertible bonds are accounted for as financial liabilities, and 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.

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.

For CB3, the face value of the outstanding bonds at 31 December 2008 amounted to HK$165 million.

As at 31 December 2008, the carrying amount of the CB3 was recorded under current liabilities, as the conversion option may be exercised, at the option of the holders, at any time after 60 days from the Issue Date.

The convertible bonds recognised on initial recognition are as follows:

	CB2	CB3	Total
Face value of convertible bonds issued	386,000	165,000	551,000
Issuance expense	(19,811)	(7,382)	(27,193)
Initial embedded derivative component	(93,906)	(95,710)	(189,616)
Host debt component on initial recognition upon issuance	272,283	61,908	334,191

The movements in the host debt component for the years ended 31 December 2008 and 2007 are as follows:

	2007
	CB2
Host debt component at 1 January 2007	89,994
Interest expense (Note 9)	7,349
Payment of interest	(1,522)
Amount converted to ordinary shares of the Company	(60,458)
Host debt component at 31 December 2007	35,363
Less: amount included under current liabilities	35,363
Amount included under 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 included under current liabilities	–	62,008	62,008
Amount included under non-current liabilities	–	–	–

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

The fair value movements in the derivative financial liabilities embedded in the CB2 and CB3 for the years ended 31 December 2008 and 31 December 2007 are as follows:

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

	2008		
	CB2	CB3	Total
Embedded derivatives component at beginning of year	19,604	–	19,604
Newly issued.	–	95,710	95,710
Fair value changes recognised in the income statement (Note 6).	–	(7,240)	(7,240)
Conversion to shares	–	–	–
Bond redemption	(19,604)	–	(19,604)
Embedded derivatives component at end of year .	–	88,470	88,470

	2007
	CB2
Embedded derivatives component at beginning of year.	93,276
Fair value changes recognised in the income statement	(12,458)
Conversion to shares	(61,214)
Embedded derivatives component at end of year	19,604

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 35).

As at 31 December 2008, the fair value of the derivative financial instruments was determined by Jones Lang LaSalle Sallmanns Appraisals Limited (2007: BMI Appraisals Limited) using generally accepted valuation methodologies, including, but not limited to, the binomial option pricing model.

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, to be levied by the same tax authority and the same taxable entity.

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

	2008	2007
At beginning of year.	755,355	275,047
Recognised in equity	–	(2,567)
Acquisition of subsidiaries	–	392,696
Recognised in the income statement (Note 12)	603,414	51,225
Exchange differences	52,016	38,954
At end of year	1,410,785	755,355

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

Deferred tax assets:

	Tax losses carried forward	Tax losses carried forward arising from business combination	Total
At 1 January 2007	11,055	4,476	15,531
Recognised in the income statement	(7,801)	(8,934)	(16,735)
Acquisition of subsidiaries	–	4,300	4,300
Exchange differences	493	158	651
At 31 December 2007	3,747	–	3,747
Recognised in the income statement	16,079	–	16,079
Exchange differences	(15)	–	(15)
At 31 December 2008	19,811	–	19,811

Deferred tax liabilities:

	Fair value gains	Fair value gains arising from business combination	Withholding taxes	Others	Total
At 1 January 2007	195,044	79,072	–	16,462	290,578
Recognised in the income statement	–	(2,567)	–	–	(2,567)
Acquisition of subsidiaries	155,293	(122,330)	–	1,527	34,490
Dissolution of a subsidiary	–	396,996	–	–	396,996
Exchange differences	20,130	18,217	–	1,258	39,605
At 31 December 2007	370,467	369,388	–	19,247	759,102
Recognised in the income statement	365,529	(24,472)	182,797	95,639	619,493
Exchange differences	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

Represented by:

	2008	2007
Deferred tax assets	19,811	–
Deferred tax liabilities	(1,430,596)	(755,355)
	(1,410,785)	(755,355)

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

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

	2008	2007
Tax losses	467,226	132,121
Deductible temporary differences	95,282	–
	562,508	132,121

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 above items as it is not considered probable that taxable profits will be available against which the above items 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 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 5% or 10% depending upon the jurisdiction of the immediate holding companies of the PRC subsidiaries. The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

35. DERIVATIVE FINANCIAL LIABILITIES

Group and Company

	2008	2007
Embedded derivatives in CB2 (Note 33)	–	19,604
Embedded derivatives in CB3 (Note 33)	88,470	–
	88,470	19,604

The derivative financial liabilities are reported at their fair values.

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

Group

	2008	2007
Advances received from the pre-sale of properties under development	1,171,996	2,392,775

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.

37. ACCOUNTS PAYABLE

Group

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

	2008	2007
Within 1 year	1,329,720	1,341,902
1-2 years	27,657	253,498
Over 2 years	–	802
	1,357,377	1,596,202

Accounts payable represent payables arising from property construction. Accounts payable with aging of more than one year generally represent retention monies held by the Group in connection with various property projects.

38. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	2008	2007
Payables for prepaid land lease payments	1,133,104	1,104,510	–	–
Deposits received from customers and construction companies	165,466	333,834	–	–
Advance from related parties of a minority shareholder of a subsidiary	229,034	233,901	–	–
Business tax and surtaxes payable	54,973	132,274	–	–
Advances from third parties	–	74,452	–	–
Advance received for disposal of the remaining interest in Meilan Huafu (Note 23)	–	21,651	–	–
Interest payable to a former minority shareholder of Shuo Cheng, a subsidiary	7,871	23,166	–	–
Dividends payable to minority shareholders of subsidiaries	10,191	15,960	–	–
Relocation costs payable	509,149	–	–	–
Payable for the transaction cost of CB3	15,500	–	15,500	–
Others	116,529	133,163	5,524	4,297
	2,241,817	2,072,911	21,024	4,297

39. AMOUNTS DUE TO RELATED COMPANIES

	Group		Company	
	2008	2007	2008	2007
Amounts due to:				
– Broadband	–	256	–	–
– CNTD	–	13	–	–
– SRE Investment Holding Ltd.	7,973	–	7,973	–
– New Technology	11,339	–	–	–
– Others	–	108	–	–
	19,312	377	7,973	–

As at 31 December 2008, the above balances are unsecured, interest free and no fixed terms of repayment, and mainly arose from the related party transactions as disclosed in Note 45.

40. CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	2008	2007
Profit before tax		1,677,332	1,670,168
Adjustments for:			
Depreciation of property, plant and equipment		98,614	34,429
Impairment of accounts receivable		562	10,934
Impairment of property, plant and equipment		38,827	–
Excess of fair value of identifiable assets over the cost of business combinations		–	(112,170)
Impairment of interest in an associate		104,320	–
(Gain)/loss on disposal of property, plant and equipment, net		(542)	175
Share of profits and losses of associates		443,186	31,021
Fair value loss on swap contracts		–	64,284
Fair value gain on derivatives embedded in convertible bonds		(7,240)	(12,458)
Gain on redemption of CB2		(12,783)	–
Fair value gain on investment properties		(1,394,587)	(942,269)
Other income		–	(969)
Gain on disposal of an equity interest in an invested company		(178,326)	–
(Gain)/loss from dilution of equity interest in CNTD		41,616	(293,982)
Transaction cost allocated to embedded derivatives of CB3		10,187	–
Finance income	8	(152,521)	(187,161)
Finance costs	9	11,063	140,105
Operating profit before working capital changes		679,708	402,107
(Increase)/decrease in restricted bank deposits		(513,434)	1,997
Increase in prepaid land lease payments		(505,268)	(224,105)
Decrease in properties held or under development for sale		852,519	1,096,415
Increase in inventories		(6,213)	(23,925)
Decrease in amounts due from associates		7,973	272,707
Earnest money paid to a third party for future cooperation		–	(202,905)
Decrease in prepayments and other current assets		10,656	62,896
Decrease in other receivables		490,396	14,811
Decrease/(increase) in accounts receivable		36,089	(44,325)
(Decrease)/increase in accounts payable		(238,824)	243,256
Decrease in other payables and accruals		(104,247)	(314,717)
Increase/(decrease) in amounts due to related parties		7,040	(1,087)
Decrease in advances received from the pre-sale of properties under development		(1,220,779)	(258,455)
Cash generated from/(used in) operations		(504,384)	1,024,670

41. CONTINGENCIES

(a) In connection with the sale of properties, Shanghai Jinwu, a subsidiary, provided guarantees to banks prior to the buyers providing title documents to their banks for mortgage purposes. As at 31 December 2008, such outstanding guarantees amounted to approximately HK$15 million (2007: nil).

(b) As at 31 December 2008, Wingo Infrastructure provided a guarantee for 40% of Broadband's HK$10.2 million bank borrowing. The outstanding guarantee amounted to approximately HK$4,082 thousand as at 31 December 2008.

(c) 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 (Note 21(a)(ii)). Such debts/amounts owing to creditors of Mengshan that Shangzhi Real Estate is jointly liable for as at 31 December 2008 amounted to approximately HK$2.49 million (RMB2.2 million).

42. 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 15 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 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008	2007
Within one year	103,231	280,040
In the second to fifth years, inclusive	260,910	1,074,607
After five years	56,589	18,793
	420,730	1,373,440

Certain operating lease agreements, entered into before 2008, were cancelled in 2008 after mutual agreements between the Group and the lessees.

(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 two and five years.

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	2008	2007
Within one year	7,589	5,967
In the second to fifth years, inclusive	5,931	8,743
	13,520	14,710

As at the balance sheet date, the Company did not have any significant operating lease agreements.

43. COMMITMENTS

In addition to the operating lease commitments detailed in Note 42(b) above, the Group had the following capital commitments at the balance sheet date:

	Group		Company	
	2008	2007	2008	2007
Contracted, but not provided for				
Properties under development for long-term investment	–	11,175	–	–
Properties held or under development for sale	2,776,361	514,309	–	–
Cost consideration for potential business combination (Note 23(a))	108,498	–	108,498	–
Capital contributions payable to an associate	2,325	–	2,325	–
	2,887,184	525,484	110,823	–
Authorised, but not contracted for				
Properties under development for long-term investment	–	136,934	–	–
Properties held or under development for sale	1,740,937	192,462	–	–
	1,740,937	329,396	–	–
	4,628,121	854,880	110,823	–

44. BUSINESS COMBINATIONS

On 31 March 2008, a subsidiary of the Company entered into an agreement to acquire a 100% equity interest in Lukang, a property development company located in Shenyang City, the PRC.

The assets and liabilities on the acquisition date of Lukang were as follows:

	Fair value at the date of acquisition	Carrying amount
Cash and cash equivalents	14,426	14,426
Prepaid land lease payment (Note 18)	199,439	199,439
Other receivables	24,254	24,254
Other payables	(196,909)	(196,909)
	41,210	41,210
Goodwill on acquisition	–	
	41,210	
Satisfied by:		
Cash	41,210	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Cash consideration	(41,210)
Cash and cash equivalents acquired	14,426
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(26,784)

Since its acquisition, Lukang contributed a loss of HK$6 million to the consolidated profit for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$3,739.9 million and HK$247.89 million, respectively.

45. RELATED PARTY TRANSACTIONS

Group

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

SRE Investment Holding Limited owns 44.84% of the Company's shares as at 31 December 2008. The remaining 55.16% of the shares are widely held.

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

i) Sales to and purchases from associates

	2008	2007
Portion of Group's consideration for purchase of land plots (developed by CNTD) that CNTD is entitled to receive	249,482	330,451
Construction of infrastructure for an intelligent network for CNTD	2,011	5,857
Sales of goods to Broadband	5,457	3,592

During the year ended 31 December 2008, the Group purchased three parcels of land (2007: one parcel), 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$356,395 thousand (2007: HK$452,675 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) Loan guarantee

	2008	2007
Guarantee provided for loans borrowed by Broadband	4,082	–

During the year ended 31 December 2008, Wingo Infrastructure provided a guarantee for 40% of the HK$10 million term loan of Broadband.

iii) Compensation to key management and their close family members

	2008	2007
Salaries and other short-term employee benefits	14,736	8,316

iv) Loans to a related party

	2008	2007
Loans to CNTD		
Beginning of the year	–	523
Interest received	–	(523)
End of the year	–	–

v) Acquisition of Konmen and Liaoning Gao Xiao from SRE Investment Holding Limited, and the related obligations and undertakings given, were disclosed in Note 26(b) above.

Except for items (v), the above transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

Financial assets	2008	2007
Loans and receivables		
– Amounts due from associates	138,968	11,048
– Other receivables	642,145	1,106,464
– Accounts receivable	18,165	54,817
– Cash and bank balances	1,575,476	1,939,359
	2,374,754	3,111,688

Financial liabilities	2008	2007
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	4,540,754	3,793,781
– Guaranteed notes	1,537,947	1,540,928
– Convertible bonds-host debts	62,008	35,363
– Accounts payable	1,357,377	1,596,202
– Amount due to related companies	19,312	377
– Others	2,228,885	1,930,800
Financial liabilities at fair value through profit or loss		
– Derivative financial liabilities	88,470	19,604
	9,834,753	8,917,055

Company

Financial assets	2008	2007
Loans and receivables		
– Dividends receivable from subsidiaries	390,573	976,131
– Advances to subsidiaries	1,073,459	857,205
– Amounts due from associates	132,438	3,868
– Other receivables	–	252
– Cash and bank balances	170,687	269,482
	1,767,157	2,106,938

Financial liabilities	2008	2007
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	359,485	493,260
– Guaranteed notes	1,537,947	1,540,928
– Convertible bonds-host debts	62,008	35,363
– Other payables	21,020	4,294
Financial liabilities at fair value through profit or loss		
– Derivative financial liabilities	88,470	19,604
	2,068,930	2,093,449

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and trade payables, which arise directly from its operations.

The Group does not hold or issue derivative financial instruments for trading purposes, the derivative financial instruments issued or held by the Group are embedded derivatives in financial instruments used for financing. The Group's accounting policies in relation to 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, 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.

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

	2008 Impact on profit before tax	2007 Impact on profit before tax
Changes in variables – RMB interest rate		
+ 50 basis points	(15,869)	(9,955)
- 50 basis points	15,869	9,955
Changes in variables – HK$ interest rate		
+ 50 basis points	(2,530)	(2,969)
- 50 basis points	2,530	2,969

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) whose values will fluctuate as a result of changes in the market prices of the Company's own shares.

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

Increase/(decrease) in market prices of the Company's own shares	2008 Impact on profit before tax	2007 Impact on profit before tax
+ 50% (2008)/+ 10% (2007)	(50,396)	(3,516)
- 50% (2008)/-10% (2007)	33,559	3,299

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 notes, convertible bonds etc. denominated in US dollar ("US$") or HK$.

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

Changes in exchange rate of US$ against Renminbi	2008 Impact on profit before tax	2007 Impact on profit before tax
+ 5%	(82,782)	(86,123)
- 5%	82,782	86,123

Changes in exchange rate of HK$ against Renminbi	2008 Impact on profit before tax	2007 Impact on profit before tax
+ 5%	(18,773)	(19,598)
- 5%	18,773	19,598

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 on-going basis other than the significant receivables in Note 26, there is no significant concentration of credit risk within the Group as the debtors of the Group's receivables were widely dispersed and the majority of the Group's financial assets are cash at banks.

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

Financial assets	2008	2007
Loans and receivables		
– Amounts due from associates	138,968	11,048
– Other receivables	642,145	1,106,464
– Accounts receivable	18,165	54,817
– Cash at banks	1,573,919	1,937,789
Total credit risk exposure	2,373,197	3,110,118

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to recognise 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 adjusts its financing strategy to get more long-term borrowings and increase share capital, through the issuance of long-term guaranteed notes, 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 seek financing from overseas market through close cooperation with several world-wide bankers.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group

	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 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
	13,663	673,376	4,441,501	5,780,812	10,909,352

	2007					
	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	–	612,027	769,686	2,880,164	–	4,261,877
Guaranteed notes . .	–	–	134,550	538,200	1,627,275	2,300,025
Convertible bonds. .	45,240	–	–	–	–	45,240
Accounts payable . .	–	196,656	1,399,546	–	–	1,596,202
Others	38,984	993,191	899,002	–	–	1,931,177
	84,224	1,801,874	3,202,784	3,418,364	1,627,275	10,134,521

Company

	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 notes . . .	–	–	133,693	2,017,987	–	2,151,680
Convertible bonds. . .	–	–	4,125	206,250	–	210,375
Others	7,973	21,020	–	–	–	28,993
	7,973	65,045	244,735	2,458,522	–	2,776,275

	2007					
	On demand	Less than 3 months	3 to less than12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings.	–	44,204	114,275	393,153	–	551,632
Guaranteed notes . . .	–	–	134,550	538,200	1,627,275	2,300,025
Convertible bonds. . .	45,240	–	–	–	–	45,240
Others	–	–	4,294	–	–	4,294
	45,240	44,204	253,119	931,353	1,627,275	2,901,191

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 notes, convertible bonds (including embedded derivatives) and payables.

Except as indicated below, the fair values of the Group'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.

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Guaranteed notes	1,537,947	920,415	1,540,928	1,365,000
Convertible bonds – host debts	62,008	69,381	35,363	36,598

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 2008 and 31 December 2007.

As the Group is mainly engaged in the development of properties, 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, host debt portion of convertible bonds, guaranteed notes, accounts payable, 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 minority interests). Such gearing ratios as, as defined by management for capital management purposes, at the balance sheet dates were as follows:

	2008	2007
Interest-bearing bank and other borrowings (Note 31)	4,540,754	3,793,781
Accounts payable (Note 37)	1,357,377	1,596,202
Other payables and accruals (Note 38)	2,241,817	2,072,911
Convertible bonds – host debts (Note 33)	62,008	35,363
Guaranteed Notes (Note 32)	1,537,947	1,540,928
Less: Cash and bank balances (Note 28)	(1,575,476)	(1,939,359)
Net debt	8,164,427	7,099,826
Equity attributable to equity holders of the parent	6,472,585	5,799,886
Minority interests	1,400,776	783,469
Capital	7,873,361	6,583,355
Capital and net debt	16,037,788	13,683,181
Gearing ratio	51%	52%

48. POST BALANCE SHEET EVENTS

Other than already disclosed elsewhere in the financial statements, the Group had the following significant post balance sheet events:

In March 2009, the Group entered into a Subscription Agreement with CNTD whereby, the Group will subscribe 680,000,000 new ordinary shares of CNTD (the "New Shares") at an issue price of SGD0.051 per share. The total consideration for the issue of New Shares amounting to SGD34,680,000 will be satisfied by (i) the capitalisation of outstanding interest-free loans of an aggregate amount of HK$28,600 thousand made by the Group to CNTD and (ii) the payment of the remaining aggregate issue price for the New Shares of SGD29,083,131. After the proposed placement is completed, the existing issued share capital of CNTD will be increased from 2,005,425,000 shares (excluding treasury shares) to 2,685,425,000 shares (excluding treasury shares) and the Group's equity interest in CNTD would increase from approximately 32.03% to approximately 49.24%. On 26 March 2009, the Singapore Exchange Ltd. (the "SGX") granted approval in-principle for the proposed listing and quotation of the New Shares on the Main Board of the SGX, subject to certain conditions, including the specific approval from CNTD's shareholders for the proposed placements and the issue of the New Shares to the Group.

49. COMPARATIVE FIGURES

Certain comparative figures to the current year's financial statements of the Group and the Company have been reclassified in accordance with disclosure requirements and also to conform with current year's presentation.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2009.

ISSUER

SRE Group Limited

Registered office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong
Room 2501, 25th Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

AUDITORS OF THE ISSUER

Ernst & Young
Certified Public Accountants
18F Two International Finance Centre, 8 Finance Street
Central
Hong Kong

TRUSTEE

DB TRUSTEES (HONG KONG) LIMITED
48th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

REGISTRAR

DEUTSCHE BANK LUXEMBOURG S.A.
2 Boulevard Konrad Adenauer
L-1115
Luxembourg

PRINCIPAL PAYING, CONVERSION AND TRANSFER AGENT

DEUTSCHE BANK AG, HONG KONG BRANCH
48th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

LEGAL ADVISERS

To the Issuer as to Bermuda law

Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

To the Issuer as to Hong Kong and English law

Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

To the Joint Bookrunners
as to English law

Latham & Watkins
41st Floor, One Exchange Square
8 Connaught Place, Central
Hong Kong

To the Joint Bookrunners
as to PRC law

Jingtian & Gongcheng
15th Floor, The Union Plaza
20 Chaoyangmenwai Avenue
Beijing, China

To the Trustee as to English law

White & Case Pte. Ltd.
50 Raffles Place, #30-00
Singapore Land Tower
Singapore 048623

TABLE OF CONTENTS

SRE GROUP LTD.

SRE GROUP LIMITED

上 置 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

RMB 446,900,000 US$ Settled 6% Convertible Bonds due 2014

Joint Bookrunners

CREDIT SUISSE Deutsche Bank

Offering Circular

20 July 2009

* *for identification purpose only*