

**SRE GROUP LIMITED**

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

**31 December 2008**

## **SRE GROUP LIMITED**

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

We have audited the financial statements of SRE Group Limited set out on pages 3 to 105 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.

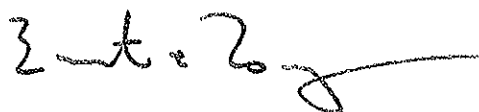
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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.

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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.



Certified Public Accountants  
18F Two International Finance Centre, 8 Finance Street, Central  
Hong Kong  
20 April 2009

**SRE GROUP LIMITED**  
**CONSOLIDATED INCOME STATEMENT**

**Year ended 31 December 2008**

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

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Revenue	5	3,739,865	3,350,446
Cost of sales	7	<u>(2,844,987)</u>	<u>(2,713,929)</u>
<b>Gross profit</b>		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	<u>1,411,217</u>	<u>1,302,738</u>
<b>Operating profit</b>		<u>1,979,060</u>	<u>1,654,133</u>
Finance income	8	152,521	187,161
Finance costs	9	<u>(11,063)</u>	<u>(140,105)</u>
Finance income – net		<u>141,458</u>	<u>47,056</u>
Share of profits and losses of associates		<u>(443,186)</u>	<u>(31,021)</u>
<b>Profit before tax</b>		1,677,332	1,670,168
Tax	12	<u>(893,471)</u>	<u>(641,960)</u>
<b>Profit for the year</b>		<u>783,861</u>	<u>1,028,208</u>
Attributable to:	13		
Equity holders of the parent		247,936	1,019,040
Minority interests		<u>535,925</u>	<u>9,168</u>
		<u>783,861</u>	<u>1,028,208</u>
Dividends - proposed final	14	<u>-</u>	<u>96,000</u>
Earnings per share attributable to ordinary equity holders of the parent	15		
- Basic		<u>8.91 cents</u>	<u>42.95 cents</u>
- Diluted		<u>8.64 cents</u>	<u>41.81 cents</u>

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

**SRE GROUP LIMITED**  
**BALANCE SHEETS**

**31 December 2008**

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

	Notes	Group		Company	
		2008	2007	2008	2007
<b>ASSETS</b>					
<b>Non-current assets</b>					
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
		<u>9,079,006</u>	<u>6,719,436</u>	<u>5,918,658</u>	<u>5,159,718</u>
<b>Current assets</b>					
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
		<u>12,228,123</u>	<u>12,903,095</u>	<u>694,253</u>	<u>1,250,371</u>
<b>Total assets</b>		<u>21,307,129</u>	<u>19,622,531</u>	<u>6,612,911</u>	<u>6,410,089</u>

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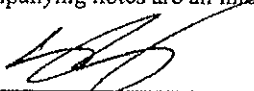
**SRE GROUP LIMITED**  
**BALANCE SHEETS (continued)**

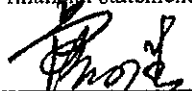
**31 December 2008**

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

	Notes	Group		Company	
		2008	2007	2008	2007
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
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
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
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
<b>Current liabilities</b>					
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
<b>Total liabilities</b>		13,433,768	13,039,176	2,076,907	2,093,452
<b>Total equity and liabilities</b>		21,307,129	19,622,531	6,612,911	6,410,089
<b>Net current assets</b>		4,808,012	4,789,413	372,158	1,048,925
<b>Total assets less current liabilities</b>		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

**SRE GROUP LIMITED**  
**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							Total equity
	Issued capital and premium (Note 29)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Retained profits	Total	
At 1 January 2007	2,042,586	12,012	248	77,894	63,019	361,884	2,557,643	2,954,624
Exchange realignment	-	-	-	-	261,230	-	261,230	328,980
Total income and expense for the year recognised directly in equity	-	-	-	-	261,230	-	261,230	328,980
Profit for the year	-	-	-	-	-	1,019,040	1,019,040	1,028,208
Total income and expense for the year	-	-	-	-	261,230	1,019,040	1,280,270	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)
Acquisition of a subsidiary	1,768,421	-	-	-	-	-	1,768,421	2,019,346
Capital contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	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)
At 31 December 2007	3,956,327	16,869*	248*	214,076*	324,249*	1,288,117	5,799,886	6,583,355

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**SRE GROUP LIMITED**  
**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.

**SRE GROUP LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**

**Year ended 31 December 2008**

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

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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		<u>(1,055,775)</u>	<u>435,162</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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		<u>(625,872)</u>	<u>(110,445)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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		<u>598,544</u>	<u>426,125</u>
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		(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
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	28	<u>873,523</u>	<u>1,851,769</u>

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

**SRE GROUP LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**31 December 2008**

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

**1. CORPORATE INFORMATION**

SRE Group Limited (the “Company”) was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the “Reorganisation”) in connection with the listing of the Company’s shares on 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.

**SRE GROUP LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**31 December 2008**

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

**2.1 BASIS OF PREPARATION (continued)**

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.

**SRE GROUP LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**31 December 2008**

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

**2.1 BASIS OF PREPARATION (continued)**

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.

**SRE GROUP LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**31 December 2008**

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

**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	<i>Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets</i>
HK(IFRIC)-Int 11	<i>HKFRS 2 – Group and Treasury Share Transactions</i>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i>
HK(IFRIC)-Int 14	<i>HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

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.

**SRE GROUP LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

**31 December 2008**

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

**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 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> <sup>1</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRS <sup>2</sup>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i> <sup>1</sup>
HKFRS 3 (Revised)	<i>Business Combinations</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosure-Improving Disclosures about Financial Instruments</i> <sup>1</sup>
HKFRS 8	<i>Operating Segments</i> <sup>1</sup>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> <sup>1</sup>
HKAS 23 (Revised)	<i>Borrowing Costs</i> <sup>1</sup>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> <sup>2</sup>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i> <sup>1</sup>
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> <sup>2</sup>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> <sup>3</sup>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i> <sup>1</sup>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i> <sup>4</sup>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> <sup>2</sup>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> <sup>6</sup>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement- Embedded Derivatives</i> <sup>5</sup>

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.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

<sup>5</sup> Effective for annual periods ending on or after 30 June 2009

<sup>6</sup> 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.

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

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.



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

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.

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**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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); 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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The 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 the useful life of the assets
Furniture, fitting, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

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

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

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.



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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Investments and other financial assets (continued)

*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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Investments and other financial assets (continued)

*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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Impairment of financial assets (continued)

*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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income tax (continued)

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.



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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income tax (continued)

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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue recognition (continued)

*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.

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**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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**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.

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**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

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.

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**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

Estimation uncertainty (continued)

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at 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.

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**4. SEGMENT INFORMATION (continued)**

An analysis by business segment is as follows:

	Year ended 31 December 2008				Total
	Property development	Property leasing	Hotel operation	Corporate and other operations	
<b>Segment revenue</b>					
<b>External sales</b>	<u>3,515,811</u>	<u>67,663</u>	<u>96,886</u>	<u>59,505</u>	<u>3,739,865</u>
<b>Segment profit/(loss)</b>	<u>852,599</u>	<u>1,369,402</u>	<u>(107,322)</u>	<u>(135,619)</u>	<u>1,979,060</u>
Finance income					152,521
Finance costs					(11,063)
Finance income - net					141,458
Share of profits and losses of associates	-	-	-	(443,186)	(443,186)
<b>Profit before tax</b>					<u>1,677,332</u>
Income tax expense					(893,471)
<b>Profit for the year</b>					<u>783,861</u>
<b>Segment assets and liabilities</b>					
Segment assets	12,907,980	5,354,972	1,817,715	696,060	20,776,727
Interests in associates	-	-	-	530,402	530,402
<b>Total assets</b>	<u>12,907,980</u>	<u>5,354,972</u>	<u>1,817,715</u>	<u>1,226,462</u>	<u>21,307,129</u>
Segment liabilities	9,696,931	1,871,065	55,297	1,810,475	13,433,768
<b>Total liabilities</b>	<u>9,696,931</u>	<u>1,871,065</u>	<u>55,297</u>	<u>1,810,475</u>	<u>13,433,768</u>
<b>Other segment information:</b>					
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

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**4. SEGMENT INFORMATION (continued)**

	Year ended 31 December 2007				Total
	Property development	Property leasing	Hotel operation	Corporate and other operations	
<b>Segment revenue</b>					
<b>External sales</b>	3,209,511	40,846	39,030	61,059	3,350,446
<b>Segment profit/(loss)</b>	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)
<b>Profit before income tax</b>					1,670,168
Income tax expense					(641,960)
<b>Profit for the year</b>					1,028,208
<b>Segment assets and liabilities</b>					
Segment assets	13,614,565	3,177,016	1,388,794	469,488	18,649,863
Interests in associates	-	-	-	972,668	972,668
<b>Total assets</b>	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
<b>Total liabilities</b>	9,525,136	1,314,449	50,203	2,149,388	13,039,176
<b>Other segment information:</b>					
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



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**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:

	<u>2008</u>	<u>2007</u>
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	<u>102,010</u>	<u>41,095</u>
	3,944,795	3,541,202
Less: sales taxes (a)	<u>(204,930)</u>	<u>(190,756)</u>
	<u>3,739,865</u>	<u>3,350,446</u>

(a) Sales taxes

Sales taxes applicable to the Group represent business tax and surcharges. The respective tax rates are as follows:

<u>Types of taxes</u>	<u>Applicable tax rates</u>	<u>Tax base</u>
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

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**6. OTHER GAINS - NET**

	<u>2008</u>	<u>2007</u>
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
	<u>1,411,217</u>	<u>1,302,738</u>

**7. EXPENSE BY NATURE**

	<u>2008</u>	<u>2007</u>
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
	<u>93,121</u>	<u>70,973</u>
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
	<u>3,172,022</u>	<u>3,000,020</u>

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**8. FINANCE INCOME**

	<u>2008</u>	<u>2007</u>
Finance income		
Interest income on bank deposits	16,727	45,533
Net foreign exchange gain	135,794	141,628
	<u>152,521</u>	<u>187,161</u>

**9. FINANCE COSTS**

	<u>2008</u>	<u>2007</u>
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	-
	<u>444,143</u>	<u>345,651</u>
Less: Amount capitalised in properties held or under development for sale, properties under development for long-term investment and construction in progress	<u>(433,080)</u>	<u>(205,546)</u>
Finance costs	<u>11,063</u>	<u>140,105</u>

During the year ended 31 December 2008, the weighted average interest capitalisation rate was 8.02% (2007: 7.56%).

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**10. DIRECTORS' REMUNERATION**

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

Name of director	2008			Total
	Salaries	Fees	Other benefits	
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

Name of director	2007			Total
	Salaries	Fees	Other benefits	
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

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**10. DIRECTORS' REMUNERATION (continued)**

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:

	<u>2008</u>	<u>2007</u>
Salaries, housing allowances, other allowances and benefits in kind	2,000	-
	<u>2,000</u>	<u>-</u>

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

	<u>2008</u>	<u>2007</u>
Nil - HK\$1,000,000	-	-
HK\$1,000,001 - HK\$1,500,000	-	-
HK\$1,500,001 - HK\$2,000,000	<u>1</u>	<u>-</u>

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**12. TAX**

	<u>2008</u>	<u>2007</u>
Current taxation		
- Mainland China enterprise income taxation (a)	258,230	256,832
- Mainland China land appreciation taxation (c)	<u>31,827</u>	<u>333,903</u>
	<u>290,057</u>	<u>590,735</u>
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)	<u>182,797</u>	<u>-</u>
	<u>603,414</u>	<u>51,225</u>
Total tax charge for the year	<u>893,471</u>	<u>641,960</u>

(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).

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**12. TAX (continued)**

(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:

	<u>2008</u>	<u>2007</u>
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	<u>770,483</u>	<u>308,057</u>
Mainland China land appreciation taxation (including deferred land appreciation taxation)	<u>122,988</u>	<u>333,903</u>
Total tax expense for the year at the Group's effective tax rate	<u>893,471</u>	<u>641,960</u>

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.

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**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**

	<u>2008</u>	<u>2007</u>
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 authorized 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).



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**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:

	<u>2008</u>	<u>2007</u>
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)	<u>100</u>	<u>7,349</u>
Profit attributable to ordinary equity holders of the parent before the above impact arising from convertible bonds	<u>240,796</u>	<u>1,013,931</u>
	Number of shares	
	<u>2008</u>	<u>2007</u>
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)	<u>2,466</u>	<u>52,926</u>
	<u>2,786,347</u>	<u>2,425,332</u>

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**16. PROPERTY, PLANT AND EQUIPMENT**  
**GROUP**

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

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**16. PROPERTY, PLANT AND EQUIPMENT (continued)**

	2007					Total
	Buildings	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	
<u>Cost</u>						
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
<u>Accumulated depreciation</u>						
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
<u>Net carrying amount</u>						
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).

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**16. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

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**16. PROPERTY, PLANT AND EQUIPMENT (continued)**

	2007			Total
	Leaschold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	
<u>Cost</u>				
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	<u>1,047</u>	<u>646</u>	<u>-</u>	<u>1,693</u>
<u>Accumulated depreciation</u>				
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	<u>943</u>	<u>478</u>	<u>-</u>	<u>1,421</u>
<u>Net carrying amount</u>				
Balance, end of year	<u>104</u>	<u>168</u>	<u>-</u>	<u>272</u>
Balance, beginning of year	<u>128</u>	<u>83</u>	<u>1,947</u>	<u>2,158</u>

**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	<u>5,248,073</u>	<u>1,842,375</u>

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**17. INVESTMENT PROPERTIES (continued)**

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:

	<u>2008</u>	<u>2007</u>
In the PRC, held on:		
Leases of over 50 years	2,361,125	1,826,356
Leases of between 10 and 50 years	<u>2,886,948</u>	<u>16,019</u>
	<u>5,248,073</u>	<u>1,842,375</u>

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:

	<u>2008</u>	<u>2007</u>
Rental income (Note 5)	72,939	42,156
Direct operating expenses arising from investment properties that generate rental income	<u>24,873</u>	<u>-</u>

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**18. PREPAID LAND LEASE PAYMENTS**

**GROUP**

	<u>2008</u>	<u>2007</u>
In the PRC, held on:		
- Leases of over 50 years	3,505,965	3,224,599
- Leases of between 10 and 50 years	<u>4,034,213</u>	<u>3,438,411</u>
	<u>7,540,178</u>	<u>6,663,010</u>

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

	<u>2008</u>	<u>2007</u>
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	<u>418,587</u>	<u>384,706</u>
At end of year	<u>7,540,178</u>	<u>6,663,010</u>
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	<u>6,654,264</u>	<u>5,554,483</u>
	<u>7,540,178</u>	<u>6,663,010</u>

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).

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**19. PROPERTIES UNDER DEVELOPMENT FOR LONG-TERM INVESTMENT**

**GROUP**

	<u>2008</u>	<u>2007</u>
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	<u>-</u>	<u>880,124</u>

As at 31 December 2007, properties under development for long-term investment were located in Shenyang, the PRC.

**20. GOODWILL**

**GROUP**

	<u>2008</u>	<u>2007</u>
<u>Cost</u>		
At beginning of year	422,627	75,512
Acquisition of subsidiaries	-	330,467
Exchange realignment	24,868	16,648
At end of year	<u>447,495</u>	<u>422,627</u>
<u>Accumulated impairment</u>		
At 1 January and 31 December	<u>-</u>	<u>-</u>
<u>Net carrying amount</u>		
Balance, end of year	<u>447,495</u>	<u>422,627</u>
Balance, beginning of year	<u>422,627</u>	<u>75,512</u>

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.



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**20. GOODWILL (continued)**

Impairment testing of goodwill (continued)

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 16.2%, 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:

	<u>2008</u>	<u>2007</u>
Property development project Qinhai Oasis Garden	86,026	82,196
Property development project Albany Oasis Garden	<u>359,058</u>	<u>338,160</u>

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

- Selling prices – The market prices of 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.

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**21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES**

**(a) Investments in subsidiaries**

**COMPANY**

	<u>2008</u>	<u>2007</u>
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		Issued and paid-up capital	Authorised share capital	Principal activities
		2008	2007			
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
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

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**21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)**

**(a) Investments in subsidiaries (continued)**

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2008	2007			
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.

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**21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)**

**(a) Investments in subsidiaries (continued)**

- (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.

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**21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)**

**(a) Investments in subsidiaries (continued)**

- (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\$120,000 (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**

	<u>2008</u>	<u>2007</u>
Share of net assets	634,722	972,668
Less: Provision for impairment	(104,320)	-
	<u>530,402</u>	<u>972,668</u>
Market value of listed shares	<u>114,354</u>	<u>1,662,728</u>

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**22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES**  
**(continued)**

(a) Interests in associates (continued)

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

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**22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES**  
**(continued)**

(a) Interests in associates(continued)

(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

	<u>2008</u>	<u>2007</u>
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	<u>2,354,048</u>	<u>2,852,106</u>
Attributable to:		
Minority interest	407,190	534,930
Equity holders of CNTD	<u>1,946,858</u>	<u>2,317,176</u>
	<u>2,354,048</u>	<u>2,852,106</u>

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**22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES**  
**(continued)**

(a) Interests in associates(continued)

(ii) Extracts of financial information of principal associates (continued)

(1) CNTD (continued)

	<u>2008</u>	<u>2007</u>
Results		
Revenue and other income	652,192	488,745
Total expense	(1,925,953)	(787,905)
Tax	<u>164,005</u>	<u>19,312</u>
Losses after tax	<u>(1,109,756)</u>	<u>(279,848)</u>
Attributable to:		
Minority interest	(159,387)	15,784
Equity holders	<u>(950,369)</u>	<u>(295,632)</u>
	<u>(1,109,756)</u>	<u>(279,848)</u>

(2) Broadband

	<u>2008</u>	<u>2007</u>
Assets	216,177	240,616
Liabilities	(89,407)	(138,558)
Revenues	139,285	84,320
Profit	<u>26,996</u>	<u>15,323</u>



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**22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES**  
**(continued)**

(b) Amounts due from associates

	<u>Group</u>		<u>Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Amounts due from:				
- CNTD	132,438	4,012	132,438	3,868
- Broadband	6,530	7,036	-	-
	<u>138,968</u>	<u>11,048</u>	<u>132,438</u>	<u>3,868</u>

On 17 August 2008, the Company and CNTD signed a letter of intent, pursuant to which the Company intended to acquire certain properties of CNTD 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.

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**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.

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**24. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE**

**GROUP**

	<u>2008</u>	<u>2007</u>
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	-
	<u>3,096,513</u>	<u>4,109,523</u>

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**

	<u>Group</u>		<u>Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Prepaid business tax	49,293	37,677	-	-
Prepayment for inventory purchased	14,141	33,252	-	-
Others	2,970	7,962	555	638
	<u>66,404</u>	<u>78,891</u>	<u>555</u>	<u>638</u>

**26. OTHER RECEIVABLES**

	<u>Group</u>		<u>Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
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
	<u>642,145</u>	<u>1,106,464</u>	<u>-</u>	<u>252</u>

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**26. OTHER RECEIVABLES (continued)**

- (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.

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**26. OTHER RECEIVABLES (continued)**

(b) (continued)

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.

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**27. ACCOUNTS RECEIVABLE**

**GROUP**

	<u>2008</u>	<u>2007</u>
Accounts receivable	28,085	65,751
Less: Provision for doubtful accounts	<u>(9,920)</u>	<u>(10,934)</u>
	<u>18,165</u>	<u>54,817</u>

An aging analysis of accounts receivable is set out below:

	<u>2008</u>	<u>2007</u>
Within 1 year	17,574	53,238
1-2 years	591	1,579
Over 2 years – impaired	<u>9,920</u>	<u>10,934</u>
	<u>28,085</u>	<u>65,751</u>

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:

	<u>2008</u>	<u>2007</u>
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	<u>661</u>	<u>-</u>
At end of year	<u>9,920</u>	<u>10,934</u>

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.

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**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	<u>1,575,476</u>	<u>1,939,359</u>	<u>170,687</u>	<u>269,482</u>

(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 balances which are denominated in the following currencies are:

	Group		Company	
	2008	2007	2008	2007
	HK\$	HK\$	HK\$	HK\$
	equivalent	equivalent	equivalent	equivalent
	HK\$'000	HK\$'000	HK\$'000	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	-
	<u>1,575,476</u>	<u>1,939,359</u>	<u>170,687</u>	<u>269,482</u>

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.

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**28. CASH AND BANK BALANCES (continued)**

Demand deposits earn interest at floating rates based on daily bank deposit rates. Notice deposits are made for varying periods of between one day and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective notice deposit rates. Time deposits 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	<u>2,783,881</u>	<u>278,388</u>	<u>3,724,713</u>	<u>4,003,101</u>

	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	<u>526,316</u>	<u>52,632</u>	<u>1,715,789</u>	<u>1,768,421</u>
At 31 December 2007	<u>2,737,844</u>	<u>273,784</u>	<u>3,682,543</u>	<u>3,956,327</u>

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.



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**29. SHARE CAPITAL AND PREMIUM (continued)**

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

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**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.

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**30 . RESERVES (continued)**

(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	<u>248</u>	<u>262,489</u>	<u>97,573</u>	<u>360,310</u>
	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	<u>248</u>	<u>526,838</u>	<u>5,817</u>	<u>532,903</u>

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**31. INTEREST-BEARING BANK AND OTHER BORROWINGS**

**GROUP AND COMPANY**

	<u>Group</u>		<u>Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
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	<u>1,495,640</u>	<u>1,164,570</u>	<u>142,620</u>	<u>142,182</u>
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	<u>3,045,114</u>	<u>2,629,211</u>	<u>216,865</u>	<u>351,078</u>
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	<u>(1,042,074)</u>	<u>(207,714)</u>	<u>(142,620)</u>	<u>(142,182)</u>
Long-term borrowings	<u>3,045,114</u>	<u>2,629,211</u>	<u>216,865</u>	<u>351,078</u>

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.

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

**GROUP AND COMPANY**

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.

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

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

	<u>Group</u>		<u>Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
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	-	-
	<u>4,540,754</u>	<u>3,793,781</u>	<u>359,485</u>	<u>493,260</u>

The Group had the following undrawn credit facilities as of the balance sheet date:

	<u>2008</u>	<u>2007</u>
Floating rate loan facilities		
- expiring within 1 year	39,687	116,403
- expiring beyond 1 year	-	154,558
	<u>39,687</u>	<u>270,961</u>

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 (equivalent to 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**

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

**SRE GROUP LIMITED**  
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**32. GUARANTEED NOTES (continued)**

	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	<u>198,448</u>	<u>1,537,947</u>	<u>197,595</u>	<u>1,540,928</u>

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.

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**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.



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**33. CONVERTIBLE BONDS – HOST DEBTS (continued)**

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:

	<u>CB2</u>	<u>CB3</u>	<u>Total</u>
Face value of convertible bonds issued	386,000	165,000	551,000
Issuance expense	(19,811)	(7,382)	(27,193)
Initial embedded derivative component	<u>(93,906)</u>	<u>(95,710)</u>	<u>(189,616)</u>
Host debt component on initial recognition upon issuance	<u>272,283</u>	<u>61,908</u>	<u>334,191</u>

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**33. CONVERTIBLE BONDS – HOST DEBTS (continued)**

The movements in the host debt component for the years ended 31 December 2008 and 2007 are as follows:

	<u>2007</u>		
	<u>CB2</u>		
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	<u>(60,458)</u>		
Host debt component at 31 December 2007	35,363		
Less: amount included under current liabilities	<u>35,363</u>		
Amount included under non-current liabilities	<u>-</u>		
	<u>2008</u>		
	<u>CB2</u>	<u>CB3</u>	<u>Total</u>
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	<u>(39,583)</u>	<u>-</u>	<u>(39,583)</u>
Host debt component at 31 December 2008	-	62,008	62,008
Less: amount included under current liabilities	<u>-</u>	<u>62,008</u>	<u>62,008</u>
Amount included under non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>

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.

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**33. CONVERTIBLE BONDS – HOST DEBTS (continued)**

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:

	<u>CB2</u>	<u>CB3</u>	<u>Total</u>
Initial recognition upon issuance of bonds	93,906	95,710	189,616
	<b>2008</b>		
	<u>CB2</u>	<u>CB3</u>	<u>Total</u>
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	<u>-</u>	<u>88,470</u>	<u>88,470</u>
	<b>2007</b>		
	<u>CB2</u>		
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	<u>19,604</u>		

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

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**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:

	<u>2008</u>	<u>2007</u>
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	<u>52,016</u>	<u>38,954</u>
At end of year	<u>1,410,785</u>	<u>755,355</u>

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

Deferred tax assets:

	<u>Tax losses carried forward</u>	<u>Tax losses carried forward arising from business combination</u>	<u>Total</u>
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	<u>493</u>	<u>158</u>	<u>651</u>
At 31 December 2007	3,747	-	3,747
Recognised in the income statement	16,079	-	16,079
Exchange differences	<u>(15)</u>	<u>-</u>	<u>(15)</u>
At 31 December 2008	<u>19,811</u>	<u>-</u>	<u>19,811</u>

**SRE GROUP LIMITED**  
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**34. DEFERRED TAX (continued)**

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:

	<u>2008</u>	<u>2007</u>
Deferred tax assets	19,811	-
Deferred tax liabilities	(1,430,596)	(755,355)
	<u>(1,410,785)</u>	<u>(755,355)</u>

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

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**34. DEFERRED TAX (continued)**

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

	<u>2008</u>	<u>2007</u>
Tax losses	467,226	132,121
Deductible temporary differences	<u>95,282</u>	<u>-</u>
	<u>562,508</u>	<u>132,121</u>

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the 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**

	<u>2008</u>	<u>2007</u>
Embedded derivatives in CB2 (Note 33)	-	19,604
Embedded derivatives in CB3 (Note 33)	<u>88,470</u>	<u>-</u>
	<u>88,470</u>	<u>19,604</u>

The derivative financial liabilities are reported at their fair values.

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

**GROUP**

	<u>2008</u>	<u>2007</u>
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:

	<u>2008</u>	<u>2007</u>
Within 1 year	1,329,720	1,341,902
1-2 years	27,657	253,498
Over 2 years	-	802
	<u>1,357,377</u>	<u>1,596,202</u>

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.

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**38. OTHER PAYABLES AND ACCRUALS**

	<u>Group</u>		<u>Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
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
	<u>2,241,817</u>	<u>2,072,911</u>	<u>21,024</u>	<u>4,297</u>

**39. AMOUNTS DUE TO RELATED COMPANIES**

	<u>Group</u>		<u>Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Amounts due to:				
- Broadband	-	256	-	-
- CNTD	-	13	-	-
- SRE Investment Holding Ltd.	7,973	-	7,973	-
- New Technology	11,339	-	-	-
- Others	-	108	-	-
	<u>19,312</u>	<u>377</u>	<u>7,973</u>	<u>-</u>

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.



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**40. CONSOLIDATED CASH FLOW STATEMENT**

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

	Notes	<u>2008</u>	<u>2007</u>
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	<u>11,063</u>	<u>140,105</u>
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		<u>(1,220,779)</u>	<u>(258,455)</u>
Cash generated from /(used in) operations		<u>(504,384)</u>	<u>1,024,670</u>

**SRE GROUP LIMITED**  
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**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:

	<u>2008</u>	<u>2007</u>
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
	<u>420,730</u>	<u>1,373,440</u>

Certain operating lease agreements, entered into before 2008, were cancelled in 2008 after mutual agreements between the Group and the lessees.

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**42. OPERATING LEASE ARRANGEMENTS (continued)**

(b) As lessee

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

	<u>2008</u>	<u>2007</u>
Within one year	7,589	5,967
In the second to fifth years, inclusive	<u>5,931</u>	<u>8,743</u>
	<u>13,520</u>	<u>14,710</u>

As at the balance sheet date, the Company did not have any significant operating lease agreements.

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**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	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
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	<u>2,325</u>	<u>-</u>	<u>2,325</u>	<u>-</u>
	<u>2,887,184</u>	<u>525,484</u>	<u>110,823</u>	<u>-</u>
Authorised, but not contracted for				
Properties under development for long-term investment	-	136,934	-	-
Properties held or under development for sale	<u>1,740,937</u>	<u>192,462</u>	<u>-</u>	<u>-</u>
	<u>1,740,937</u>	<u>329,396</u>	<u>-</u>	<u>-</u>
	<u>4,628,121</u>	<u>854,880</u>	<u>110,823</u>	<u>-</u>

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**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	<u>(196,909)</u>	<u>(196,909)</u>
	41,210	<u>41,210</u>
Goodwill on acquisition	<u>-</u>	
	<u>41,210</u>	
Satisfied by:		
Cash	<u>41,210</u>	

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	<u>14,426</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>(26,784)</u>

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.

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**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

	<u>2008</u>	<u>2007</u>
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	<u>5,457</u>	<u>3,592</u>

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.

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**45. RELATED PARTY TRANSACTIONS (continued)**

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

ii) Loan guarantee

	<u>2008</u>	<u>2007</u>
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\$10.2 million term loan of Broadband.

iii) Compensation to key management and their close family members

	<u>2008</u>	<u>2007</u>
Salaries and other short-term employee benefits	14,736	8,316

iv) Loans to a related party

	<u>2008</u>	<u>2007</u>
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.

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**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**

<u>Financial assets</u>	<u>2008</u>	<u>2007</u>
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
	<u>2,374,754</u>	<u>3,111,688</u>
<u>Financial liabilities</u>	<u>2008</u>	<u>2007</u>
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
	<u>9,834,753</u>	<u>8,917,055</u>



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**46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)**

**Company**

<u>Financial assets</u>	<u>2008</u>	<u>2007</u>
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
	<u>1,767,157</u>	<u>2,106,938</u>
<u>Financial liabilities</u>	<u>2008</u>	<u>2007</u>
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
	<u>2,068,930</u>	<u>2,093,449</u>

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**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.

	<u>2008</u>	<u>2007</u>
<b>Changes in variables – RMB interest rate</b>	Impact on profit before tax	Impact on profit before tax
+ 50 basis points	(15,869)	(9,955)
- 50 basis points	15,869	9,955
	<hr/>	<hr/>
<b>Changes in variables – HK\$ interest rate</b>		
+ 50 basis points	(2,530)	(2,969)
- 50 basis points	2,530	2,969
	<hr/>	<hr/>

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**NOTES TO FINANCIAL STATEMENTS**

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**47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**  
**(continued)**

*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	2007
	Impact on profit before tax	Impact on profit before tax
+ 50% (2008)/+ 10% (2007)	(50,396)	(3,516)
- 50% (2008)/- 10% (2007)	33,559	3,299

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**47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**  
**(continued)**

*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	2007
	Impact on profit before tax	Impact on profit before tax
+ 5%	(82,782)	(86,123)
- 5%	82,782	86,123
<hr/>		
Changes in exchange rate of HK\$ against Renminbi	2008	2007
	Impact on profit before tax	Impact on profit before tax
+ 5%	(18,773)	(19,598)
- 5%	18,773	19,598
<hr/>		

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**47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**  
**(continued)**

*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.

<u>Financial assets</u>	<u>2008</u>	<u>2007</u>
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	<u>1,573,919</u>	<u>1,937,789</u>
Total credit risk exposure	<u>2,373,197</u>	<u>3,110,118</u>

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**47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**  
**(continued)**

*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				Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	
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
	<u>13,663</u>	<u>673,376</u>	<u>4,441,501</u>	<u>5,780,812</u>	<u>10,909,352</u>

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**47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**  
**(continued)**

	2007					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
Interest-bearing bank and other borrowings	-	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
	<u>84,224</u>	<u>1,801,874</u>	<u>3,202,784</u>	<u>3,418,364</u>	<u>1,627,275</u>	<u>10,134,521</u>

**Company**

	2008					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
Interest-bearing bank and other borrowings	-	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
	<u>7,973</u>	<u>65,045</u>	<u>244,735</u>	<u>2,458,522</u>	<u>-</u>	<u>2,776,275</u>

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**47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**  
**(continued)**

*Liquidity risk (continued)*

	2007					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
Interest-bearing bank and other borrowings	-	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
	<u>45,240</u>	<u>44,204</u>	<u>253,119</u>	<u>931,353</u>	<u>1,627,275</u>	<u>2,901,191</u>

*Fair values of financial assets and liabilities*

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

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

The Group's financial liabilities mainly include interest-bearing bank and other borrowings, guaranteed 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.



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**47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**  
**(continued)**

	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 defined by management for capital management purposes, at the balance sheet dates were as follows:

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**47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**  
**(continued)**

*Capital management (continued)*

	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.

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**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.

