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SRE GROUP LIMITED

上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

**CONNECTED TRANSACTION RELATING TO
THE SUBSCRIPTION OF NEW SHARES
AND APPLICATION FOR WHITEWASH WAIVER**

Financial Adviser



KBC Bank N.V. Hong Kong Branch

THE SUBSCRIPTION

On 9 December 2010, the Subscriber entered into the Subscription Agreement with the Company pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 700,000,000 Subscription Shares at the price of HK\$0.81 per Subscription Share. The Subscription Shares represent approximately 19.42% of the issued share capital of the Company as at the date of the Subscription Agreement and, assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement up to Completion, approximately 16.26% of the issued share capital of the Company as enlarged by the Subscription.

* For identification purpose only

LISTING RULES IMPLICATION

Since the Subscriber is a controlling shareholder of the Company, the Subscriber is a connected person of the Company and, accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Subscription exceed 5%, the Subscription is subject to the Independent Shareholders' approval by way of poll at the SGM pursuant to the Listing Rules. Mr. Shi Jian and Mr. Li Yao Min are shareholders and directors of the Subscriber and the Company, Mr. Yu Hai Sheng is a shareholder of the Subscriber, Mr. Shi Jian Dong is a shareholder and director of the Subscriber, and Md. Si Xiao Dong is the spouse of Mr. Shi Jian and both a shareholder and director of the Subscriber. Accordingly, the Subscriber, Mr. Shi Jian, Md. Si Xiao Dong, Mr. Li Yao Min, Mr. Yu Hai Sheng and Mr. Shi Jian Dong and their respective associates will abstain from voting at the SGM in respect of the resolution approving the Subscription and the issue of the Subscription Shares. The Directors have confirmed that so far as they are aware, save for the above, no other Shareholder is interested in the Subscription.

TAKEOVERS CODE IMPLICATIONS

As at the date of the Subscription Agreement, the Subscriber holds 1,098,400,938 Shares, and together with the Lent Shares, the Subscriber is interested in a total of 1,248,400,938 Shares, representing approximately 34.64% of the issued share capital of the Company. Mr. Shi Jian, Md. Si Xiao Dong, Mr. Li Yao Min, Mr. Yu Hai Sheng and Mr. Shi Jian Dong, being persons acting in concert with the Subscriber, hold 7,246,887 Shares, 2,220 Shares, 5,172,220 Shares, 6,235,987 Shares and 2,402,220 Shares respectively, representing approximately 0.20%, 0.00006%, 0.14%, 0.17% and 0.07% of the issued share capital of the Company respectively. Md. He Pei Pei, the spouse of Mr. Zhuo Fumin who is an independent non-executive Director, being a person presumed to be acting in concert with the Subscriber under the Takeovers Code, holds 140,000 Shares. Therefore, the Subscriber and persons acting in concert with it are interested in a total of 1,269,600,472 Shares (or 1,119,600,472 Shares if excluding the Lent Shares), representing approximately 35.23% (or 31.07% if excluding the Lent Shares) of the issued share capital of the Company as at the date of the Subscription Agreement. Upon Completion, 700,000,000 Subscription Shares will be issued to the Subscriber, and the interests of the Subscriber and persons acting in concert with it in the voting rights of the Company will be increased by more than 2% from approximately 35.23% (or 31.07% if excluding the Lent Shares) to approximately 45.76% (or 42.28% if excluding the Lent Shares) within the 12-month period immediately preceding the Completion Date (assuming that no additional Shares other than the Subscription Shares will be issued since the date of the Subscription Agreement up to Completion). Accordingly, the Subscriber and persons acting in concert with it, in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by them.

The Subscriber will make an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Subscriber and persons acting in concert with it (including Mr. Shi Jian, Mr. Li Yao Min, Mr. Yu Hai Sheng, Md. Si Xiao Dong, Mr. Shi Jian Dong and Md. He Pei Pei), their respective associates and those involved or interested in the Subscription and the Whitewash Waiver shall abstain from voting at the SGM in respect of the resolution approving the Whitewash Waiver.

GENERAL

Pursuant to the Listing Rules, the Subscription IBC comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder. Pursuant to the Takeovers Code, the Whitewash IBC comprising one of the non-executive Directors, namely Mr. Jin Bing Rong, and all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the Whitewash Waiver. Since Mr. Cheung Wing Yui, the other non-executive Director, is a consultant of Messrs. Woo, Kwan, Lee & Lo, which is the Hong Kong legal advisers to the Company in relation to the Subscription and the Whitewash Waiver, Mr. Cheung Wing Yui has not been appointed as a member of the Whitewash IBC. No member of the Subscription IBC nor the Whitewash IBC has any interest or involvement in the transactions contemplated under the Subscription Agreement or the Whitewash Waiver. The Independent Financial Adviser has been appointed to advise the Subscription IBC, the Whitewash IBC and the Independent Shareholders in this regard, which appointment has been approved by the Subscription IBC and the Whitewash IBC respectively.

A circular containing, among other things, (i) details of the Subscription and the Subscription Agreement, (ii) details of the Whitewash Waiver, (iii) a letter of recommendation from the Subscription IBC to the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, (iv) a letter of recommendation from the Whitewash IBC to the Independent Shareholders in respect of the Whitewash Waiver; (v) a letter of advice from the Independent Financial Adviser to the Subscription IBC, the Whitewash IBC and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, together with (vi) a notice of the SGM, and (vii) other information as required under the Listing Rules and the Takeovers Code, is expected to be dispatched by the Company to the Shareholders on or before 29 December 2010.

THE SUBSCRIPTION AGREEMENT

Date

9 December 2010

Parties

- (a) the Subscriber, a company incorporated in the British Virgin Islands. As at the date of the Subscription Agreement, the Subscriber holds 1,098,400,938 Shares, and together with the Lent Shares, is interested in 1,248,400,938 Shares, representing approximately 30.48% and 34.64% respectively of the issued share capital of the Company; and
- (b) the Company.

The Subscription Shares

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 700,000,000 Subscription Shares. As at the date of the Subscription Agreement, there were 3,603,881,194 Shares in issue and the Subscription Shares represent approximately 19.42% of the issued share capital of the Company as at the date of the Subscription Agreement and, assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement up to Completion, approximately 16.26% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

Subscription Price

The Subscription Price for the Subscription Shares is HK\$0.81 per Subscription Share. The Subscription Price represents:

- (i) a premium of approximately 6.58% over the closing price of HK\$0.760 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 4.92% over the average closing price of HK\$0.772 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 4.65% over the average closing price of HK\$0.774 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 1.89% over the average closing price of HK\$0.795 per Share as quoted on the Stock Exchange for the last 50 trading days up to and including the Last Trading Day; and
- (v) a discount of approximately 64.36% over the Group's audited consolidated net asset per Share (excluding minority interest) as at 31 December 2009 of approximately HK\$2.273 (based on a total of 3,603,881,194 Shares as at the date of the Subscription Agreement and the Group's audited consolidated net asset value attributable to owners of the parent of approximately HK\$8,191,741,000 as at 31 December 2009).

The Subscription Price was determined after arm's length negotiation between the Company and the Subscriber with reference to the recent trading prices of the Shares on the Stock Exchange.

The total consideration for the Subscription Shares in the sum of HK\$567,000,000 will be financed by internal resources available to the Subscriber.

Ranking

The Subscription Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with all the Shares in issue at the date of allotment and issue of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

Conditions of the Subscription

Completion of the Subscription is conditional upon:

- (a) the Listing Committee of the Stock Exchange having granted or agreeing to grant the listing of, and permission to deal in, the Subscription Shares;
- (b) the Executive having granted the Whitewash Waiver;
- (c) the passing of a resolution by the Independent Shareholders at the SGM approving the Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Subscription Shares to the Subscriber pursuant to the Subscription Agreement; and
- (d) the passing of a resolution by the Independent Shareholders at the SGM approving the Whitewash Waiver.

In the event that not all the Conditions have been fulfilled by 4:00 p.m. on the Long Stop Date, the Subscription Agreement shall terminate, lapse and be of no further effect, and the Company and the Subscriber shall be released from all obligations thereunder and neither party shall have any claim against the other for any costs or losses save in respect of any antecedent breaches of the Subscription Agreement. None of the conditions to the Subscription mentioned above can be waived by either party to the Subscription Agreement. If the Whitewash Waiver has not been granted or the resolutions approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver have not been passed by the Independent Shareholders at the SGM, the Subscription Agreement will terminate, lapse and be of no further effect, and the parties shall be released from all obligations under the Subscription Agreement and neither party shall have any claim against the other for any costs or losses save in respect of any antecedent breaches of the Subscription Agreement.

An ordinary resolution will be proposed at the SGM to seek, among other things, a specific mandate for the issue of the Subscription Shares pursuant to the Subscription Agreement.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Completion of the Subscription

Subject to fulfilment of all the Conditions, Completion of the Subscription shall take place on the Completion Date.

Lock-up undertaking

The Subscriber has undertaken to the Company that during the period commencing from the Completion Date and ending on the date which is twelve months from the Completion Date, it shall not, and shall procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Company:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Subscription Shares;
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Subscription Shares, whether any of the foregoing transactions is to be settled by delivery of the Subscription Shares or such other securities, in cash or otherwise;
- (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or
- (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above.

Force majeure

If and to the extent that either the Company or the Subscriber is prevented or delayed from performing any of its obligations under the Subscription Agreement by any event or circumstances not foreseeable at the date of the Subscription Agreement and beyond the reasonable control of the party in question, including (without prejudice to the generality of the foregoing) serious market downturn, material adverse change in the financial or market conditions of Hong Kong or the People's Republic of China, or the occurrence of any event having a material adverse effect on the financial position, assets, business operations or prospects of the relevant party (the "**Force Majeure Event**"), the party affected by Force Majeure Event shall promptly notify the other party and provide details of the Force Majeure Event, then the party so affected shall be relieved of its liability to the other party for the failure to perform or the delay in performing such obligations (as the case may be), but shall nevertheless use its best endeavours to resume full performance thereof as soon as practicable.

If the Force Majeure Event continues or is likely to continue for a period of 3 months or more following notification, either party may terminate the Subscription Agreement forthwith by giving written notice to the other party and Subscription Agreement shall terminate, lapse and be of no further effect, and the parties shall be released from all obligations under the Subscription Agreement and neither party shall have any claim against the other for any costs or losses save in respect of any antecedent breaches of the Subscription Agreement.

EFFECT OF THE SUBSCRIPTION

The shareholdings in the Company as at the date of the Subscription Agreement and immediately after the Subscription (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement up to Completion) are summarised as follows:

	As at the date of the Subscription Agreement		Immediately after completion of the Subscription	
	No. of Shares	Approx. %	No. of Shares	Approx. %
The Subscriber (Note 1)	1,248,400,938 (Note 2)	34.64	1,948,400,938 (Note 3)	45.27
The Directors: (Note 4)				
– Mr. Shi Jian	7,246,887	0.20	7,246,887	0.17
– Mr. Li Yao Min	5,172,220	0.14	5,172,220	0.12
– Mr. Yu Hai Sheng	6,235,987	0.17	6,235,987	0.14
Md. Si Xiao Dong	2,220	0.00006	2,220	0.00005
Mr. Shi Jian Dong	2,402,220	0.07	2,402,220	0.06
Md. He Pei Pei (Note 5)	140,000	0.004	140,000	0.003
Sub-total of the Subscriber and persons acting in concert with it (Note 6)	1,269,600,472	35.23	1,969,600,472	45.76
Other shareholders	2,334,280,722 (Note 7)	64.77	2,334,280,722 (Note 7)	54.24
Total	3,603,881,194	100.00	4,303,881,194	100.00

Notes:

1. The shareholders of the Subscriber consist of Mr. Shi Jian (holding 33% interest), Md. Si Xiao Dong (the spouse of Mr. Shi Jian, holding 30% interest), Mr. Li Yao Min (holding 5% interest), Mr. Yu Hai Sheng (holding 5% interest), Mr. Shi Jian Dong (holding 5% interest), Mr. Jiang Xu Dong (holding 2% interest), Mr. Shi Pin Ren (holding 1% interest), Mr. Yue Wai Leung Stan (holding 2% interest), Ms. Gu Biya (holding 1% interest), Ms. Song Yiqing (holding 1% interest), Mr. Mao Yiping (holding 1% interest), Mr. Yang Yonggang (holding 1% interest), and other relatives of Mr. Shi Jian and/or Md. Si Xiao Dong (holding in aggregate 8% interest), and unrelated parties comprising 4 long term employees of the Group, namely Mr. Wang Zi Xiong (holding 2% interest), Mr. Huang Wei Lun (holding 1% interest), Ms. Li Hua (holding 1% interest) and Ms. Yin Lan (holding 1% interest). Each of Mr. Shi Jian, Mr. Li Yao Min and Mr. Yue Wai Leung Stan is both a Director and a director of China New Town Development Company Limited, a 61.54% owned subsidiary of the Company whose shares are listed on the Stock Exchange (“CNTD”). Each of Mr. Yu Hai Sheng, Mr.

Jiang Xu Dong and Mr. Shi Pin Ren is a Director. Each of Ms. Gu Biya, Ms. Song Yiqing, Mr. Mao Yiping and Mr. Yang Yonggang is a director of CNTD. Save as set out in the table above, no other shareholder of the Subscriber holds any Shares as at the date of this announcement.

- 2. These Shares comprise of 1,098,400,938 Shares held by the Subscriber and the Lent Shares (being 150,000,000 Shares, representing approximately 4.16% of the issued share capital of the Company as at the date of the Subscription Agreement). The Lent Shares are being included for purposes of illustrating the maximum number of Shares held by the Subscriber before and after the Subscription. For the reasons set out in the section headed "Information Required under the Takeovers Code" in this announcement, the Stock Borrowers are not considered persons acting in concert with the Subscriber for the purposes of the Subscription and the Whitewash Waiver and the Lent Shares can be voted by the holders thereof at the SGM. The Subscriber has no control over the voting rights of the Lent Shares and has no means of ascertaining whether these Lent Shares will be voted at the SGM.*
- 3. These 1,948,400,938 Shares include the Lent Shares (being 150,000,000 Shares, representing approximately 3.49% of the issued share capital of the Company immediately after Completion).*
- 4. Mr. Shi Jian, Md. Si Xiao Dong, Mr. Li Yao Min and Mr. Shi Jian Dong are both shareholders and directors of the Subscriber and Mr. Yu Hai Sheng is a shareholder of the Subscriber.*
- 5. Md. He Pei Pei is the spouse of Mr. Zhuo Fumin, an independent non-executive Director, and is presumed to be acting in concert with companies controlled by Mr. Shi Jian (in this case the Subscriber) under the Takeovers Code.*
- 6. The persons acting in concert with the Subscriber who are Shareholders comprise Mr. Shi Jian, Md. Si Xiao Dong, Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Shi Jian Dong and Md. He Pei Pei.*
- 7. These 2,334,280,722 Shares have not taken into account of the 150,000,000 Lent Shares, the voting rights of which rest with the holders thereof and may be voted by such holders at the SGM. Pursuant to the stock borrow agreements in relation to the Lent Shares, the Subscriber is entitled, following any conversion of the Convertible Bonds, to call for the redelivery by the Stock Borrowers of such number of Lent Shares as is derived by multiplying the number of Shares resulting from such conversion by a certain percentage. In addition, the Subscriber is entitled to call for the redelivery by the Stock Borrowers of the Lent Shares at any time after the earlier of (i) the third anniversary of the issue date of the Convertible Bonds and (ii) the date on which the Convertible Bonds have been redeemed in full. Since none of the events referred to above has occurred yet, the Subscriber has no right to call for the redelivery of any of the Lent Shares from the Stock Borrowers as at the date of this announcement. Taking into account the Lent Shares, the total number of Shares which may be voted at the SGM is 2,484,280,722 Shares, representing approximately 68.93% of the issued share capital of the Company as at the date of this announcement and approximately 57.72% of the issued share capital of the Company immediately after Completion.*

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is an integrated property developer and is principally engaged in the development and sale of residential and commercial properties in Shanghai City, Shenyang City, Liaoning Province and Haikou City, Hainan Province, the PRC, with a focus on the development of middle-to high-end residential properties. In addition, the Group is also engaged in the planning, managing and operating of new towns in the PRC.

It is the intention of the Company to apply all of the net proceeds from the Subscription to the continuous development of the Group's development project at Huangpu District, Shanghai (the "Qinhai Yuan Development Project"), which will be developed into a complex comprising grade-A office buildings and a number of commercial and high-end residential blocks. The Group shall bear the costs for the relocation of the existing resident and the subsequent demolition of the buildings for the land parcel underlying the Qinhai Yuan Development Project (the "Relocation") and the Group may commence the construction work only after completion of the Relocation.

The current cash and bank balances of the Group would be insufficient for the Group to accommodate the outstanding amount for the Relocation and the capital commitment of the Group's other property and new town development projects in the near future. As such, the Subscription will enhance the Group's ability in meeting its financial needs in respect of the Relocation and also accelerate the Group's overall progress of the Relocation by speeding up the payment of the Relocation costs, which will in turn shorten the investment period of the Qinhai Yuan Development Project and mitigate the risks of the potential increase in the Relocation costs resulted from the continuous growth of the PRC's property market.

The Directors have also considered a number of financing options such as bank borrowing. However, under the arrangement between the Group and the relevant land administration of Shanghai in respect of the Qinhai Yuan Development Project, the relevant land use rights (and other title certificates) will only be granted to the Group upon completion of the Relocation and in the absence of which, it will not be plausible for the Group to apply/arrange for any bank loans from the PRC local banks with terms and amount which are meaningful to Group or terms which match the pay-back period of the Qinhai Yuan Development Project, not to mention the fact that it is presently difficult for property developers in the PRC to obtain bank financing due to the PRC government's policies in curbing monetary supply in the PRC, especially the recent tightening credit policies for property development loans. In addition, even if the additional bank loans were made available, the gearing ratio of the Group (which amounted to approximately 55% as at 30 June 2010 according to the Company's interim report for the six months ended 30 June 2010) would be adversely increased and additional finance charges would be incurred, particularly under the situation of increase in the interest rates during the tenure of the bank loans.

Based on the above and, more importantly, the fact that the Subscription Price represents a premium to the prevailing market price of the Shares, the Directors (other than the independent non-executive Directors who will express their view after considering the advice from the Independent Financial Adviser) consider that the Subscription represents a straightforward and cost-effective means of financing for the Group and is fair and reasonable and on normal commercial terms and the entering into of the Subscription Agreement is in the interests of the Group and the Shareholders as a whole.

The net proceeds from the Subscription are estimated to be approximately HK\$562,000,000 and based on such estimated net proceeds, the net subscription price per Subscription Share would be approximately HK\$0.80.

LISTING RULES IMPLICATIONS

Since the Subscriber is a controlling shareholder of the Company, the Subscriber is a connected person of the Company and, accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Subscription exceed 5%, the Subscription is subject to the Independent Shareholders' approval by way of poll at the SGM pursuant to the Listing Rules. Mr. Shi Jian and Mr. Li Yao Min are shareholders and directors of the Subscriber and the Company, Mr. Yu Hai Sheng is a shareholder of the Subscriber, Mr. Shi Jian Dong is a shareholder and director of the Subscriber, and Md. Si Xiao Dong is the spouse of Mr. Shi Jian and both a shareholder and director of the Subscriber. Accordingly, the Subscriber, Mr. Shi Jian, Md. Si Xiao Dong, Mr. Li Yao Min, Mr. Yu Hai Sheng and Mr. Shi Jian Dong and their respective associates will abstain from voting at the SGM in respect of the resolution approving the Subscription and the issue of the Subscription Shares. The Directors have confirmed that so far as they are aware, save for the above, no other Shareholder is interested in the Subscription.

TAKEOVERS CODE IMPLICATIONS

As at the date of the Subscription Agreement, the Subscriber holds 1,098,400,938 Shares, and together with the Lent Shares, the Subscriber is interested in a total of 1,248,400,938 Shares, representing approximately 34.64% of the issued share capital of the Company. Mr. Shi Jian, Md. Si Xiao Dong, Mr. Li Yao Min, Mr. Yu Hai Sheng and Mr. Shi Jian Dong, being persons acting in concert with the Subscriber, hold 7,246,887 Shares, 2,220 Shares, 5,172,220 Shares, 6,235,987 Shares and 2,402,220 Shares respectively, representing approximately 0.20%, 0.00006%, 0.14%, 0.17% and 0.07% of the issued share capital of the Company respectively. Md. He Pei Pei, the spouse of Mr. Zhuo Fumin who is an independent non-executive Director, being a person presumed to be acting in concert with the Subscriber under the Takeovers Code, holds 140,000 Shares. Therefore, the Subscriber and persons acting in concert with it are interested in a total of 1,269,600,472 Shares (or 1,119,600,472 Shares if excluding the Lent Shares), representing approximately 35.23% (or 31.07% if excluding the Lent Shares) of the issued share capital of the Company as at the date of the Subscription Agreement. Upon Completion, 700,000,000 Subscription Shares will be issued to the Subscriber, and the interests of the Subscriber and persons acting in concert with it in the voting rights of the Company will be increased by more than 2% from approximately 35.23% (or 31.07% if excluding the Lent Shares) to approximately 45.76% (or 42.28% if excluding the Lent Shares) within the 12-month period immediately preceding the Completion Date (assuming that no additional Shares other than the Subscription Shares will be issued since the date of the Subscription Agreement up to Completion). Accordingly, the Subscriber and persons acting in concert with it, in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by them.

The Subscriber will make an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Subscriber and persons acting in concert with it (including Mr. Shi Jian, Mr. Li Yao Min, Mr. Yu Hai Sheng, Md. Si Xiao Dong, Mr. Shi Jian Dong and Md. He Pei Pei), their respective associates and those involved or interested in the Subscription and

the Whitewash Waiver shall abstain from voting at the SGM in respect of the resolution approving the Whitewash Waiver. As at the date of this announcement, the Subscriber has not received any irrevocable commitment from any Independent Shareholder that they will vote in favour of the resolution approving the Whitewash Waiver at the SGM.

The Subscriber and each director and shareholder of the Subscriber has undertaken to the Company that apart from the Subscription Agreement, neither it/her/she nor any persons acting in concert with it/him/her will:

- (a) from the date of the Subscription Agreement until the Completion Date acquire or dispose of or enter into any agreement or arrangement to acquire or dispose of any voting rights in the Company; and
- (b) within six months after the SGM, acquire or dispose of or enter into any agreement or arrangement to acquire or dispose of any voting rights in the Company from or to a person who is a Director or substantial Shareholder.

INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the date of this announcement, save for the outstanding Convertible Bonds which are convertible into 511,074,068 Shares, the Company does not have any options, warrants or convertible securities in issue.

The Subscriber and each of its directors and shareholders has confirmed that neither it/he/she nor any persons acting in concert with it/him/her:

- (a) has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company within the six months prior to the date of the Subscription Agreement and up to the date of this announcement;
- (b) owns any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;
- (c) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of the Subscriber and which might be material to the transactions contemplated under the Subscription Agreement or the Whitewash Waiver;
- (d) has any agreements or arrangements to which it/he/she is a party which relate to the circumstances in which it/he/she may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Subscription Agreement or the Whitewash Waiver, nor any such agreements or arrangements the consequences of its/his/her so invoking or seeking to invoke a pre-condition or a condition to such transactions would result in any break fees being payable.

For purposes of facilitating the dealing in the Convertible Bonds by the places of the Convertible Bonds (the “**CB Investors**”), Credit Suisse (Hong Kong) Limited and Deutsche Bank AG, Hong Kong Branch, being the joint bookrunners of the Convertible Bonds, had demanded stock borrowing arrangements with the Subscriber, being the controlling Shareholder, for subsequent lending of the Shares to the CB Investors such that the CB Investors will be able to set up short positions to formulate arbitrage strategies to hedge against price changes in the Shares. Accordingly, the Subscriber entered into a stock borrow agreement with each of the Stock Borrowers to lend the Lent Shares to the Stock Borrowers. Since (i) neither of the Stock Borrowers are involved or interested in, or have participated in any negotiations relating to, the Subscription Agreement or the transactions contemplated thereunder or the Whitewash Waiver, (ii) according to the relevant stock borrow agreements relating to the Lent Shares, the Stock Borrowers have no obligations to exercise the voting rights attached to the Lent Shares in accordance with the instructions of the Subscriber, and (iii) neither of the Stock Borrowers have advised the Subscriber in respect of the stock borrowing arrangements nor the Subscription nor the Whitewash Waiver, they are not considered persons acting in concert with the Subscriber for the purpose of the Subscription and the Whitewash Waiver.

As at the date of this announcement, save for the lending of the Lent Shares, there are not any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Subscriber or any person acting in concert with it has borrowed or lent.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not conduct any fund raising activities during the past twelve months immediately preceding the date of this announcement.

GENERAL

Pursuant to the Listing Rules, the Subscription IBC comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder. Pursuant to the Takeovers Code, the Whitewash IBC comprising one of the non-executive Directors, namely Mr. Jin Bing Rong, and all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the Whitewash Waiver. Since Mr. Cheung Wing Yui, the other non-executive Director, is a consultant of Messrs. Woo, Kwan, Lee & Lo, which is the Hong Kong legal advisers to the Company in relation to the Subscription and the Whitewash Waiver, Mr. Cheung Wing Yui has not been appointed as a member of the Whitewash IBC. No member of the Subscription IBC nor the Whitewash IBC has any interest or involvement in the transactions contemplated under the Subscription Agreement or the Whitewash Waiver. The Independent Financial Adviser has been appointed to advise the Subscription IBC, the Whitewash IBC and the Independent Shareholders in this regard, which appointment has been approved by the Subscription IBC and the Whitewash IBC respectively.

A circular containing, among other things, (i) details of the Subscription and the Subscription Agreement, (ii) details of the Whitewash Waiver, (iii) a letter of recommendation from the Subscription IBC to the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, (iv) a letter of recommendation from the Whitewash IBC to the Independent Shareholders in respect of the Whitewash Waiver; (v) a letter of advice from the Independent Financial Adviser to the Subscription IBC, the Whitewash IBC and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, together with (vi) a notice of the SGM, and (vii) other information as required under the Listing Rules and the Takeovers Code, is expected to be dispatched by the Company to the Shareholders on or before 29 December 2010.

PRINCIPAL ACTIVITIES OF THE SUBSCRIBER AND THE GROUP

The principal activity of the Subscriber is investment holding.

The Group is an integrated property developer and is primarily engaged in the development and sale of residential and commercial properties in Shanghai, Shenyang and Haikou, the PRC, with a specific focus on the middle to high-end residential properties.

DEFINITIONS

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Company”	SRE Group Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription
“Completion Date”	the date when Completion shall take place, being the 60th calendar day after all the Conditions have been fulfilled, or such other date as may be agreed in writing between the Company and the Subscriber
“Conditions”	the conditions precedent to Completion, as more particularly set out under the section headed “Conditions of the Subscription” in this announcement
“connected person”	has the meaning as ascribed to it under the Listing Rules

“Convertible Bonds”	the RMB denominated 6% convertible bonds in the principal amount of RMB446,900,000 maturing on 23 July 2014 issued by the Company on 24 July 2009, details of which were disclosed in the Company’s announcement dated 29 June 2009
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong from time to time and any delegate of such Executive Director
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Financial Adviser”	OSK Capital Hong Kong Limited, a corporation licensed under the Securities and Futures Ordinance to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), being the independent financial adviser to the Subscription IBC, the Whitewash IBC and Independent Shareholders regarding the Subscription and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than the Subscriber and persons acting in concert with it and any other Shareholders who are involved in, or interested in the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver
“Last Trading Day”	9 December 2010, being the last trading day of the Shares on the Stock Exchange prior to the publication of this announcement
“Lent Shares”	150 million Shares lent by the Subscriber pursuant to two stock borrow agreements both dated 29 June 2009, of which 75 million Shares were lent to Credit Suisse Securities (Europe) Limited and 75 million Shares were lent to Deutsche Bank AG (acting through its London Branch)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	28 February 2011 or such later date as may be agreed in writing between the Company and the Subscriber

“persons acting in concert”	has the meaning ascribed to it under the Takeovers Code
“SGM”	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver respectively
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Borrowers”	Credit Suisse Securities (Europe) Limited and Deutsche Bank AG (acting through its London Branch), being borrowers of the Lent Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	SRE Investment Holding Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company
“Subscription”	the subscription by the Subscriber of the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 9 December 2010 between the Subscriber and the Company relating to the Subscription
“Subscription IBC”	the independent board committee comprising all the independent non-executive Directors, namely Mr. Jiang Xie Fu, Mr. E Hock Yap and Mr. Zhuo Fumin, which has been established by the Company to advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder
“Subscription Price”	means HK\$0.81 per Subscription Share
“Subscription Share(s)”	new Share(s) to be subscribed by the Subscriber pursuant to the Subscription Agreement
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers

“Whitewash Waiver”	the waiver by the Executive under Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code of the obligation on the part of the Subscriber and persons acting in concert with it to make a general offer to the shareholders of the Company for all issued shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and persons acting in concert with it as a result of the issue and allotment of the Subscription Shares to the Subscriber
“Whitewash IBC”	the independent board committee comprising one non-executive Director, namely Mr. Jin Bing Rong, and all the independent non-executive Directors, namely Mr. Jiang Xie Fu, Mr. E Hock Yap and Mr. Zhuo Fumin, which has been established by the Company to advise the Independent Shareholders on the terms of the Whitewash Waiver
“%”	per cent.

By order of the Board
SRE Group Limited
Shi Jian
Chairman

Hong Kong, 9 December 2010

As as the date of this announcement, the Board comprises six executive Directors, namely Mr. Shi Jian, Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong, Mr. Shi Pin Ren and Mr. Yue Wai Leung Stan; two non-executive Directors, namely Mr. Cheung Wing Yui and Mr. Jin Bing Rong and three independent non-executive Directors, namely Mr. Jiang Xie Fu, Mr. E Hock Yap and Mr. Zhuo Fumin.

The Directors jointly and severally accept full responsibility for the accuracy of the information in this announcement other than in respect of the Subscriber and persons acting in concert with it and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement other than opinions expressed by the Subscriber and persons acting in concert with it have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.

As at the date of this announcement, the board of directors of the Subscriber comprises four directors, namely Mr. Shi Jian, Md. Si Xiao Dong, Mr. Li Yao Min and Mr. Shi Jian Dong.

The directors of the Subscriber jointly and severally accept full responsibility for the accuracy of the information in this announcement relating to the Subscriber and persons acting in concert with it and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement other than opinions expressed by the Company or the Directors have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.