SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

UNAUDITED INTERIM RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2014

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2014
Revenue (HK$'000)	**1,029,089**
Net Profit attributable to owners of the parent (HK$'000)	**9,512**
Basic earnings per share (HK cents)	**0.17**
Dividend per share-Interim (HK cents)	–

INTERIM RESULTS

The Board of Directors ("the Board") of SRE Group Limited is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2014 together with comparative figures for the previous corresponding period in 2013. The unaudited interim financial statements for the six months ended 30 June 2014 have been reviewed by the Company's Audit Committee.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

(Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

		For the six months ended 30 June	
		2014	2013
	Notes	**Unaudited**	Unaudited
Revenue	*3*	**1,029,089**	1,347,646
Cost of sales		**(607,341)**	(989,483)
Gross profit		**421,748**	358,163
Other gains – net		**9,115**	4,816
Selling and marketing expenses		**(28,738)**	(31,007)
Administrative expenses		**(124,339)**	(112,365)
Operating profit		**277,786**	219,607
Finance income		**26,658**	34,581
Finance costs		**(207,137)**	(154,276)
Finance costs – net		**(180,479)**	(119,695)
Share of profits of associates		**322**	895
Profit before tax		**97,629**	100,807
Income tax expense	*4*	**(67,525)**	(63,511)
Profit for the period		**30,104**	37,296
Other comprehensive income			
Item not to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements into presentation currency		**(90,757)**	170,205
Other comprehensive income for the period, net of tax		**(90,757)**	170,205
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(60,653)**	207,501

	Notes	For the six months ended 30 June **2014** **Unaudited**	2013 Unaudited
Profit attributable to:			
Owners of the parent		**9,512**	25,894
Non-controlling interests		**20,592**	11,402
		30,104	37,296
Total comprehensive income attributable to:			
Owners of the parent		**(77,971)**	185,764
Non-controlling interests		**17,318**	21,737
		(60,653)	207,501
Earnings per share attributable to ordinary equity holders of the parent	*5*		
– Basic		**HK$0.17 cents**	HK$0.46 cents
– Diluted		**HK$0.17 cents**	HK$0.46 cents

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

(Amounts expressed in Hong Kong dollar and rounded to nearest thousand unless otherwise stated)

	Notes	30 June 2014 Unaudited	31 December 2013 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**1,338,871**	1,343,584
Investment properties		**5,164,650**	5,214,575
Prepaid land lease payments		**134,344**	137,806
Goodwill		**663,510**	651,308
Investments in associates		**75,532**	75,939
Deferred tax assets		**505,438**	510,324
Non-current prepayment		**6,299**	6,360
		7,888,644	7,939,896
Current assets			
Prepaid land lease payments		**11,372,851**	11,300,584
Properties held or under development for sale		**8,164,826**	7,991,138
Inventories		**27,218**	12,076
Prepayments and other current assets		**1,840,221**	1,145,340
Other receivables		**631,423**	503,816
Trade receivables	7	**141,933**	35,503
Prepaid income tax		**236,444**	170,740
Cash and bank balances		**2,508,020**	2,941,096
		24,922,936	24,100,293
Total assets		**32,811,580**	32,040,189

	Notes	30 June 2014 Unaudited	31 December 2013 Audited
EQUITY AND LIABILITIES			
Equity			
Issued capital and premium		**6,000,738**	6,000,738
Other reserves		**1,627,381**	1,714,864
Retained profits		**1,464,464**	1,454,952
Proposed final dividend		**–**	60,046
Equity attributable to owners of the parent		**9,092,583**	9,230,600
Non-controlling interests		**361,984**	322,755
Total equity		**9,454,567**	9,553,355
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**11,643,598**	10,233,940
Deferred tax liabilities		**1,921,979**	1,943,823
		13,565,577	12,177,763
Current liabilities			
Interest-bearing bank and other borrowings		**5,243,961**	5,322,462
Convertible bonds – host debts		**8,754**	8,332
Advances received from the pre-sale of properties under development		**941,194**	1,177,218
Trade payables	*8*	**1,204,636**	1,804,043
Other payables and accruals		**857,446**	421,021
Current income tax liabilities		**1,535,445**	1,575,995
		9,791,436	10,309,071
Total liabilities		**23,357,013**	22,486,834
Total equity and liabilities		**32,811,580**	32,040,189
Net current assets		**15,131,500**	13,791,222
Total assets less current liabilities		**23,020,144**	21,731,118

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

1. Basis of preparation and accounting policies

1.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

1.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new and revised standards and interpretations as of 1 January 2014, as described below:

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HK(IFRIC) Interpretation 21 Levies (HK(IFRIC) 21)

HK(IFRIC) 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. HK(IFRIC) 21 is effective for annual periods beginning on or after 1 January 2014. Currently, the Group does not expect that HK(IFRIC) 21 will have significant impact on the Group's financial statements.

Amendments to HKAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets

The amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

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

2. Operating Segment Information

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. The performance of each segment is evaluated based on its operating profit or loss before tax and the methodology used for its calculation is same as that for the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties.

An analysis by business segment is as follows:

	Six months ended 30 June 2014 (unaudited)				
	Property development	**Property leasing**	**Hotel operations**	**Corporate and other operations**	**Total**
Segment revenue					
Sales to external customers	**808,806**	**48,582**	**85,218**	**86,483**	**1,029,089**
Intersegment sales	**–**	**–**	**–**	**1,407**	**1,407**
	808,806	**48,582**	**85,218**	**87,890**	**1,030,496**
Reconciliation:					
Elimination of intersegment sales					**(1,407)**
Revenue					**1,029,089**
Segment profit/(loss)	**256,632**	**28,233**	**6,593**	**(13,672)**	**277,786**
Finance income					**26,658**
Finance costs					**(207,137)**
Finance costs – net					**(180,479)**
Share of profits of associates					**322**
Profit before tax					**97,629**

	Six months ended 30 June 2013 (unaudited)				
	Property development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	1,118,822	60,385	92,854	75,585	1,347,646
Intersegment sales	–	–	–	139,571	139,571
	1,118,822	60,385	92,854	215,156	1,487,217
Reconciliation:					
Elimination of intersegment sales					(139,571)
Revenue					1,347,646
Segment profit/(loss)	194,830	37,984	7,322	(20,529)	219,607
Finance income					34,581
Finance costs					(154,276)
Finance costs – net					(119,695)
Share of profits of associates					895
Profit before tax					100,807

3. Revenue

An analysis of revenue during the period is as follows:

	(unaudited) For the six months ended 30 June	
	2014	2013
Sale of development properties	**855,024**	1,182,053
Hotel operations	**90,319**	98,412
Revenue from property leasing	**52,448**	57,037
Property management income	**91,571**	78,676
Revenue from construction of infrastructure for an intelligent network	**691**	9,722
Other revenue	**2,519**	4,511
	1,092,572	1,430,411
Less: Business tax and surcharges *(a)*	**(63,483)**	(82,765)
Total revenue	**1,029,089**	1,347,646

(a) Business tax and surcharges

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

Government surcharges, comprising City Maintenance and Construction Tax, Education Surtax and River Way Management Fee, are calculated at certain percentages of business tax.

4. Tax

	(unaudited) For the six months ended 30 June	
	2014	2013
Current taxation		
– Mainland China income tax *(a)*	**25,555**	40,244
– Mainland China LAT *(c)*	**45,211**	12,872
	70,766	53,116
Deferred taxation		
– Mainland China income tax	**164**	(677)
– Mainland China LAT	**(1,609)**	(32)
– Mainland China withholding tax *(d)*	**(1,796)**	11,104
	(3,241)	10,395
Total tax charge for the period	**67,525**	63,511

(a) Mainland China income tax

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

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

(b) Other income tax

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

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

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

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

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transactions and revenue recognition, generally based on 1.5% to 4.5% on proceeds of the sale and pre-sale of properties.

(d) Mainland China Withholding tax

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

5. Earnings per Share

The calculation of basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 5,664,713 thousand (2013: 5,664,713 thousand) in issue during the period.

For the periods ended 30 June 2014 and 2013, the calculation of diluted earnings per share amount does not take into account the convertible bonds, because they are anti-dilutive. Hence, the diluted earnings per share are the same as the basic earnings per share for the periods ended 30 June 2014 and 2013.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**9,512**	25,894

	Number of shares	
	For the six months ended 30 June 2014 *(Thousand shares)*	For the six months ended 30 June 2013 *(Thousand shares)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculations	**5,664,713**	5,664,713
	5,664,713	5,664,713

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

6. Dividend

On 28 August 2014, the Board resolved not to declare an interim dividend for the six months ended 30 June 2014 (2013: Nil).

7. Trade Receivables

	30 June 2014 Unaudited	31 December 2013 Audited
Trade receivables	**152,013**	45,680
Less: Provision for impairment	**(10,080)**	(10,177)
	141,933	35,503

An aging analysis of trade receivables is set out below:

	30 June 2014 Unaudited	31 December 2013 Audited
Within 6 months	**124,550**	26,176
6 months – 1 year	**16,870**	379
1 – 2 years	**4,140**	7,913
Over 2 years	**6,453**	11,212
	152,013	45,680

Trade receivables are non-interest-bearing. The credit terms offered by the Group are normally less than 6 months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

8. Trade Payables

	30 June 2014 Unaudited	31 December 2013 Audited
Trade payables	**1,204,636**	1,804,043

An aging analysis of trade payables is as follows:

	30 June 2014 Unaudited	31 December 2013 Audited
Within 1 year	**1,065,874**	1,169,764
1 – 2 years	**107,940**	433,290
Over 2 years	**30,822**	200,989
	1,204,636	1,804,043

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the period under review, the Group recorded a net revenue of approximately HK$1,029 million (2013: HK$1,348 million), a decrease of approximately 23.7% compared with that of the corresponding period of last year. The decrease in net revenue was mainly due to the decrease in revenue generated from sales of development properties. Profit attributable to owners of the parent amounted to approximately HK$10 million (2013: approximately HK$26 million).

Liquidity and Financial Resources

As at 30 June 2014, cash and bank balances amounted to approximately HK$2,508 million (31 December 2013: approximately HK$2,941 million). Working capital (net current assets) of the Group as at 30 June 2014 amounted to approximately HK$15,132 million (31 December 2013: approximately HK$13,791 million), an increase by approximately 10% as compared with the previous year. Current ratio was at 2.55x (31 December 2013: 2.34x).

As at 30 June 2014, the gearing ratio, being the Group's net borrowings (total borrowings minus cash and bank balance) to total capital (equity plus net borrowings), was 60% (31 December 2013: 57%).

Charges on Assets and Contingent Liabilities

As at 30 June 2014, bank and other borrowings of approximately HK$16,312 million (31 December 2013: approximately HK$15,024 million) were secured by mortgage of the Group's leasehold land, investment properties, property, plant and equipment and properties held or under development for sale, or by pledge of equity interest in subsidiaries, bank deposits and cashflow from pre-sale of properties.

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to certain purchasers of the Group's properties. Pursuant to the terms of the guarantee agreements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates of grant of the relevant mortgage loans and end when the purchasers pledge related property certificates as securities to the banks for the mortgage loans granted by the banks. The Group entered into guarantee contracts of principal amounts totalling RMB511 million (equivalent to HK$644 million) and these contracts were still valid on 30 June 2014 (31 December 2013: RMB484 million, equivalent to HK$615 million).

The Group did not incur any material losses during the period in question in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. The Directors consider that the probability of default of purchasers is remote and even in case of default on payments, the net realisable value of the related properties is expected to be sufficient to cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, because the mortgage principals were normally below 70% of sales price of the properties at date of sales agreement, and therefore no provision was made in connection with the guarantees under these financial statements.

BUSINESS REVIEW

In the first half of 2014, affected by the tightening of credit and the permeation of the wait-and-see mood in the market, the average property price of a hundred cities had fallen for the first time in May after it has risen continuously for two years, and the decline in June even widened. The sales volume in the first half of the year was obviously lower than that of the same period of last year, and the decrease in first-tier cities was the sharpest. Many of the leading real estate developers failed to achieve their sales target for the first half of the year and performed poorly as the achievement ratio was concerned as compared with the same period of last year. In the first half of the year, the Group further deepened its organisational reform, set up eight business units and established a horizontal and highly efficient management structure. In order to ensure that the presale of certain projects can commence in the second half of the year, it accelerated the construction of three new projects, including 30,000 m^2 of Bairun Project in Huangpu District, Shanghai, 160,000 m^2 of Shanghai Albany Garden Phase III, and 184,000 m^2 of Shenyang Albany Garden Phase II. The Group kept pace with the times and created an internet finance service platform named "Skyway e House(天地e家)" to adjust and enhance its industry mix.

Real Estate Development

Sales Progress

In the first half of 2014, the Group's major projects put up for sale included Cedar Villa Original, Central Ring Centre, SRE Financial Centre, Lake Malaren Garden, Haikou Bund Centre, Shenyang Albany Oasis Garden and Shenyang Yosemite Oasis Community. From January to June 2014, the Group achieved contract sales of approximately RMB204.2 million for a total floor area of 11,209 m^2, which, inter alia, included:

Cedar Villa Original

The Cedar Villa Original rests on Lake Malaren, Luodian Nordic New Town, Baoshan District, Shanghai. It boasts the benefits of its proximity to Lake Malaren and high-end facilities including a golf course, featuring a golden Tuscany style of authentic Italian origin. A total of 7 units with a total area of 1,077 m^2 were sold in the first half of 2014, and the contract sums totaled RMB 27.16 million (an average of RMB25,226 per m^2).

Central Ring Centre

As a landmark of the Shanghai Central Ring business district, the Central Ring Centre, with all qualities of Grade 5A office buildings and well equipped with all sorts of facilities, has attracted an increasing number of companies. From January to June 2014, a total of 12 units measuring a total area of 916 m^2 were sold for RMB29 million (averaging RMB30,200 per m^2).

SRE Financial Centre

SRE Financial Centre is a 37,000 m^2 government approved five-star hotel style (Shanghai Skyway Pullman Hotel Style) office center which comprised approximately 140 units with the area of each individual unit ranging from 210 m^2 to 288 m^2. Located in the center of Huangpu District, SRE Financial Centre is well integrated into the hub of the financial services industry, and is enjoying the geographical advantages of "capturing a panoramic view along the Huangpu River, the superb ancillary facilities of the hub and its convenience". Thus, this building stands out amongst high-end office properties available for sale and arouses extensive interests. From January to June 2014, a total of 11 units measuring a total area of 2,519 m^2 were sold for RMB106.67 million (averaging RMB42,344 per m^2).

Lake Malaren Garden

Lake Malaren Garden resides in Luodian Nordic New Town, Baoshan District, Shanghai. These golf club garden villas feature eclectic European architecture, a palatable harmony with the natural beauty, the architectural features and the cultural environment of the Nordic New Town. These coupled with the Rich Gate brand have attracted much attention. From January to June 2014, a total of 8 units measuring a total area of 1,086 m^2 were sold for RMB21.77 million (averaging RMB19,945 per m^2).

Haikou Bund Centre

In 2010 and in the first half of 2011, Hainan's real estate market experienced vigorous sales triggered by the central government's policy of positioning the province as an "International Tourism Island" before the subsequent cooling off as a result of the strict macro-control measures implemented by both the central and local governments. The Haikou Bund Centre project managed to adjust its strategies proactively and achieved satisfactory sales. A total of 3 units of the phase I of the project with a total area of 570 m^2 were sold from January to June 2014, yielding an aggregate amount of RMB8.7 million (an average of RMB15,276 per m^2).

Progress of Construction

Adhering to development plans and construction schedules outlined at the beginning of 2014, the Group and its subsidiary companies have been carrying out construction works in an orderly and standardized manner, while making every effort to uphold our principle of maintaining high quality. Major projects under construction:

Shanghai Albany Oasis Garden Phase III

As at the end of June 2014, the construction of PHC tubular pile engineering, enclosure engineering and compaction grouting engineering were fully completed, the floor of underground garage was entirely completed, and ceiling of the underground garage was 90% completed. At present, the internal wall of the secondary structure is being constructed.

Bairun Project

As at June 2014, the main structure of block 1 to block 3 was completed to the sixth floor, the underground structure of block 4 and block 5 was 40% completed. As for block 6, the steel structure of the curtain wall and external thermal insulation were 80% completed.

Shenyang Albany Phase II

The total gross floor area of Phase II amounts to 184,000 m^2, and the project is divided into section A and section B. As at June 2014, the construction of the main structure of the high-rise buildings in section A was completed. At present, the auxiliary engineering works are about to commence. The construction of main structure of the super high-rise building was completed to the 32nd floor and that for high-rise buildings in section B was completed to the 14th floor and that for the super high-rise building was completed to the fourth floor.

Shenyang Yosemite Oasis Community

As at the end of June 2014, the construction of the west parcel of Phase I of Shenyang Yosemite Oasis Community had been fully completed and the sold units had already been handed over to buyers. The east parcel of Phase I is divided into 2 sections, namely Jinling and Shuangxing. The construction of Jinling section was fully completed and the sold units had been handed over to buyers; most of the main structures in Shuangxing has been topped off, and the laying of roof tiles is underway. It is expected that construction will be completed with the sold units ready for handover to buyers in September 2014.

Progress of Relocation

Albany Oasis Garden

As at the end of June 2014, save for parcel A for which the evacuation and demolition has not yet started, 6,214 households representing 98.1% of the total had been relocated while all economic enterprises had been relocated.

Bairun Project

As of the end of June 2014, all of the 374 households, 16 sole proprietors and 9 enterprises had been completely relocated.

Rich Gate I (Qinhai Oasis Garden)

As at the end of June 2014, with 891 households and 1 enterprise relocated, households relocation for Rich Gate I project was 39.7% completed and enterprises relocation for Rich Gate I project was 2.4% completed. The project was included in the renovation of old cities of Shanghai and Huangpu district of 2014, and the House Acquisition Agreement had been signed with Shanghai Huangpu District Construction and Traffic Committee.

Shenyang Albany

As of the end of June 2014, Shenyang Albany had signed relocation contracts with 1,383 households and 13 enterprises (including schools), with negotiations for 117 households and 12 enterprises and schools still in progress. The relocation was about 92% completed for households and 52% completed for enterprises and schools respectively.

Commercial Properties

During the first half of 2014, the Group continued to enhance the management and operation of its commercial properties to cope with the changing market conditions and opportunities, expeditiously adjusted the operation strategies, utilized its advantages in brands and management capabilities, and strived to improve profitability with the benefits of the experiences earned. Details include the following:

Shanghai Skyway Pullman Hotel

From January to June 2014, the hotel recorded revenue of RMB71.53 million, comprising room revenue of RMB37.86 million and revenue from food and beverages of RMB29.83 million. Gross profit amounted to approximately RMB16.33 million and the occupancy rate was about 87%.

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall offers a wide range of varieties, such as shopping, fine food, leisure, entertainment, culture, sports & recreation and services. As of June 2014, a total area of 67,137 m^2 were leased, accounting for 60% of the total rentable area, and rental income totaled RMB21.45 million.

Central Ring Centre

During the first half of 2014, Central Ring Centre had made tremendous efforts in attracting tenants. Currently, commercial and office spaces of 39,000 m^2, and an underground parking garage of 57,000 m^2 are for lease. For the six months ended June 2014, rental income totaled RMB20.80 million, RMB18.08 million of which were lease income from commercial area and office spaces while parking fee income totaled RMB2.72 million.

BUSINESS OUTLOOK

In 2014, the new government made efforts to promote the building of a sound, effective and long-term mechanism. Judging from the behavior of the government after the launch of the "Five Regulations", the Central Government no longer only focuses on home prices, but is paying more attention on safeguards for a healthy market by establishing a well-designed long-term and effective mechanism. In the medium and long run, the promulgation of rules regarding, for example, a unified registration system for real estate, public disclosure of assets and the continuing development of a proper tax regime for the real estate market will further promote the establishment and improvement of the long-term and effective mechanism and the development of the real estate market in a healthy manner. Local governments promulgate polices based on the local market conditions; thus purchase restriction policies, being extreme policies in extreme times, will gradually be phased out in third and fourth tier cities. Under the backdrop of deepening comprehensive reforms, the real estate industry will surely have more market opportunities and challenges.

In the finance and capital market aspect, in the second half of the year, the monetary policy will aim at striking a balance between “stable growth”, “risk mitigation” and “reduction of leverage”. It is expected that the theme of maintaining a stable and healthy monetary policy will remain unchanged and a loose monetary policy will be maintained to ensure adequate supply of liquidity in the market. The benchmark interest rates of deposits and loans will remain stable but loan interest rates is expected to rise. At present, policies towards real estate loans will strictly conform to policies set by the State Council for construction loans, home mortgage loans and loans related to land reserves and others, and such policies will not be relaxed. The reduction of deposit reserve ratio for specified financial institutions will increase liquidity and promote the development of financial markets; the removal of restrictions on subsequent-offerings, the pilot scheme of preference shares will further broaden direct financing channels in the capital markets; differentiated credit policies will become the mainstream of real estate market credit policies and will help release the suppressed basic and inelastic demands for real estate in the market.

For sales and marketing, full understanding of the market and grasping the right direction is key. With regard to market trend, along with the recovery of demand, supply will also surge. Supply will exceed demand and will result in “de-stocking” which is the main theme in the second half of the year. Home price adjustments will deepen and there will be downside pressure for home prices in certain cities. The Group will make sufficient preparations and brace ourselves for the challenges. In the second half of the year, the Group will, in promoting the sales of new projects such as Shanghai Huangpu Bairun Project, Shanghai Albany Oasis Garden Phase III, and Shenyang Albany Oasis Garden Phase II, “realign” values of the projects so as to ensure that such values are congruent with the demands of the real purchasers in the slackening market. The Group will also, through professional and systematic marketing integrated with effective execution, adhere to fine details in marketing, focus on customer management and maintenance in order to achieve maximum return with minimum input, exercise full control over the process, exercise flexibility when responding to market changes and establish a comprehensive “risk control system”, etc. The Group believes that success is dependent on attention to details and these measures will help the Group to improve its operating results in the slackening market.

According to the statistics published by the China National Statistics Bureau, total investments in real estate development in the first half of 2014 amounted to RMB4.2019 trillion, representing an increase of 14.1% over the same period of last year. Out of this total amount, investment in residential property development amounted to RMB2.8689 trillion, representing an increase of 13.7% over the same period of last year. The growth in investment in the development of the real estate market declined as compared with the same period of last year. The transaction volume of commodity housing decreased as compared with the same period of last year and the average price saw negative growth over the same period of last year. The performance in real estate markets in cities of all tiers was unsatisfactory.

In the second half of 2014, with the support of the growth stabilizing policies, the economy is expected to improve; the micro stimulation will bring short-term stabilization of the economy, yet downside pressures still remain. It is difficult for the favorable policies to change the cyclical downward trend, and the internal adjustment of the real estate market will continue. Under such an overall weak macroeconomic environment, by improving the management system, accelerating the launch of new projects, adjusting the group structure and by moving into internet finance innovatively, the Group will through business integration continue to capitalize on its competitive advantages.

EMPLOYEES

As at 30 June 2014, the Group had retained 2,150 employees in Hong Kong and the PRC. Total staff costs of the Group excluding directors' remuneration, for the period under review amounted to approximately HK$95 million. Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of individual employee.

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

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2014.

DIRECTORS' COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The Group's unaudited consolidated financial statements for the six months ended 30 June 2014 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

Throughout the financial period, the Board has reviewed its corporate governance practices and confirmed that the Company has complied with all principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") except for E.1.2 which stipulates that the chairman of the board should attend the annual general meeting and he should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. Mr. Shi Jian, the Chairman of the Board and the Chairman of the Nomination Committee, did not attend the annual general meeting for the year 2014 due to other business commitments.

In addition, due to Mr. Jiang Xie Fu's resignation as an independent non-executive director ("**INED**") and the chairman of the Audit Committee ("**AC**"), the Company since 16 June 2014 temporarily failed to comply with (i) Rule 3.10A of the Listing Rules, which requires that the INEDs of the Company shall represent at least one-third of the board; and (ii) Rule 3.21 of the Listing Rules that the INEDs who are members of the AC of the Company shall form the majority of the AC of the Company and the AC of the Company shall be chaired by an INED. Following the resignation of Mr. Jiang Xu Dong as an Executive Director of the Company and the appointment of Mr. Chan, Charles Sheung Wai and Mr. Yuan Pu as the Chairman and a member of the AC respectively on 14 August 2014, and such non-compliance was rectified.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for 2014 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the Stock Exchange website (http://www.hkex.com.hk) in due course.

On behalf of the Board
SRE Group Limited
Shi Jian
Chairman

Hong Kong, China, 28 August 2014

As at the date hereof, the Board comprises six executive directors, namely Mr. Shi Jian, Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Wang Zi Xiong, Mr. Zhang Hongfei and Mr. Shi Lizhou; two non-executive directors, namely Mr. Cheung Wing Yui and Mr. Jin Bing Rong and four independent non-executive directors, namely Mr. Zhuo Fumin, Mr. Yuan Pu, Mr. Chan, Charles Sheung Wai and Mr. Yang Chao.

* *For identification purpose only*