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SRE GROUP LIMITED

上置集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1207)

2014 FINAL RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of SRE Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2014 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

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

	Notes	2014	2013
Revenue	4	1,439,956	3,344,278
Cost of sales	5	(1,133,304)	(2,387,850)
Gross profit		306,652	956,428
Other gains – net		964,797	148,395
Selling and marketing expenses	5	(77,148)	(78,397)
Administrative expenses	5	(270,308)	(266,871)
Operating profit		923,993	759,555
Finance income		99,204	87,455
Finance costs		(456,753)	(352,117)
Finance costs – net		(357,549)	(264,662)
Share of profits of associates		1,431	4,846
Profit before tax		567,875	499,739
Income tax expense	6	(423,600)	(294,609)
Profit for the year		144,275	205,130

	<i>Notes</i>	2014	2013
Other comprehensive income			
<i>Item not to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of financial statements into presentation currency		<u>(30,908)</u>	<u>295,109</u>
Other comprehensive income for the year, net of tax		<u>(30,908)</u>	<u>295,109</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>113,367</u>	<u>500,239</u>
(Loss)/profit attributable to:			
Owners of the parent		(105,954)	200,171
Non-controlling interests		<u>250,229</u>	<u>4,959</u>
		<u>144,275</u>	<u>205,130</u>
Total comprehensive income attributable to:			
Owners of the parent		(137,611)	480,798
Non-controlling interests		<u>250,978</u>	<u>19,441</u>
		<u>113,367</u>	<u>500,239</u>
(Loss)/earnings per share attributable to ordinary equity holders of the parent	7		
– Basic		<u>HK(1.87) cents</u>	<u>HK3.53 cents</u>
– Diluted		<u>HK(1.87) cents</u>	<u>HK3.53 cents</u>

Details of the dividends paid and proposed are disclosed in Note 8 to the financial statements.

STATEMENTS OF FINANCIAL POSITION

31 December 2014

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

	<i>Notes</i>	Group		Company	
		2014	2013	2014	2013
ASSETS					
Non-current assets					
Property, plant and equipment		1,672,425	1,343,584	445	829
Investment properties		6,709,310	5,214,575	–	–
Prepaid land lease payments		133,023	137,806	–	–
Goodwill		569,329	651,308	–	–
Investments in subsidiaries		–	–	5,110,023	5,127,579
Advances to subsidiaries		–	–	1,305,438	1,372,791
Investments in associates		57,512	75,939	–	–
Deferred tax assets		394,332	510,324	–	–
Non-current prepayments		6,338	6,360	–	–
Available-for-sale investments		12,676	–	–	–
Other non-current assets		34,225	–	–	–
		9,589,170	7,939,896	6,415,906	6,501,199
Current assets					
Prepaid land lease payments		12,193,194	11,300,584	–	–
Properties held or under development for sale		9,367,652	7,991,138	–	–
Inventories		18,014	12,076	–	–
Dividends receivable from subsidiaries		–	–	2,473,852	2,482,348
Prepayments and other current assets		3,372,619	1,145,340	7,487	2,881
Other receivables		389,118	503,816	–	–
Trade receivables	9	47,356	35,503	–	–
Prepaid income tax		240,763	170,740	–	–
Cash and bank balances		2,108,997	2,941,096	58,486	56,698
		27,737,713	24,100,293	2,539,825	2,541,927
Total assets		37,326,883	32,040,189	8,955,731	9,043,126

		Group		Company	
	<i>Notes</i>	2014	2013	2014	2013
EQUITY AND LIABILITIES					
EQUITY					
Issued capital and premium		6,000,738	6,000,738	6,000,738	6,000,738
Other reserves		1,688,257	1,714,864	1,410,965	1,436,744
Retained profits/(accumulated losses)		1,347,736	1,454,952	(64,874)	4,900
Proposed final dividend	8	–	60,046	–	60,046
		<hr/>	<hr/>	<hr/>	<hr/>
Equity attributable to owners of the parent		9,036,731	9,230,600	7,346,829	7,502,428
Non-controlling interests		566,804	322,755	–	–
		<hr/>	<hr/>	<hr/>	<hr/>
Total equity		9,603,535	9,553,355	7,346,829	7,502,428
		<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings		12,365,003	10,233,940	373,395	326,048
Deferred tax liabilities		2,154,852	1,943,823	–	–
		<hr/>	<hr/>	<hr/>	<hr/>
		14,519,855	12,177,763	373,395	326,048
		<hr/>	<hr/>	<hr/>	<hr/>
Current liabilities					
Interest-bearing bank and other borrowings		7,229,169	5,322,462	1,234,048	1,193,986
Convertible bonds – host debts		–	8,332	–	8,332
Advances received from the pre-sale of properties under development		1,542,255	1,177,218	–	–
Trade payables	10	2,135,637	1,804,043	–	–
Other payables and accruals		721,529	421,021	1,459	12,332
Current income tax liabilities		1,574,903	1,575,995	–	–
		<hr/>	<hr/>	<hr/>	<hr/>
		13,203,493	10,309,071	1,235,507	1,214,650
		<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities		27,723,348	22,486,834	1,608,902	1,540,698
		<hr/>	<hr/>	<hr/>	<hr/>
Total equity and liabilities		37,326,883	32,040,189	8,955,731	9,043,126
		<hr/>	<hr/>	<hr/>	<hr/>
Net current assets		14,534,220	13,791,222	1,304,318	1,327,277
		<hr/>	<hr/>	<hr/>	<hr/>
Total assets less current liabilities		24,123,390	21,731,118	7,720,224	7,828,476
		<hr/>	<hr/>	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

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

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	11	(2,986,404)	(1,456,647)
Interest paid		(1,584,082)	(1,134,226)
Income tax paid		(159,129)	(303,259)
		<hr/>	<hr/>
Net cash flows used in operating activities		(4,729,615)	(2,894,132)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(308,544)	(281,593)
Proceeds from disposal of items of property, plant and equipment		53,931	844
Payments for investment properties		(5,358)	(5,964)
Acquisition of subsidiaries		(14,724)	–
Disposal of subsidiaries		148,061	369,285
Purchase of available-for-sale investments		(12,676)	–
Reduction of capital of an associate		16,406	–
Settlement of receivables in connection with acquisition of Konmen Investment Limited		1,025	532,622
Earnest money paid to a third party for acquisition of a company		–	(6,360)
Decrease/(increase) in time deposits with original maturity of over three months		2,543	(78)
Dividends received from an associate		3,111	7,800
Interest received		73,212	44,390
		<hr/>	<hr/>
Net cash flows (used in)/from investing activities		(43,013)	660,946
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for the redemption of Guaranteed Senior Notes		–	(561,574)
Payments for acquisition of an equity interest of a subsidiary from a non-controlling shareholder		–	(458,000)
Decrease/(increase) in pledged bank deposits		36,582	(776,286)
Increase in restricted deposits in relation to bank borrowings		(24,203)	(4,507)
Proceeds from short-term borrowings		1,695,457	978,945
Repayments of short-term borrowings		(742,933)	(500,063)
Proceeds from long-term borrowings		5,516,578	11,005,519
Repayments of long-term borrowings		(2,437,413)	(7,380,916)
Payments for the redemption of CB4		(8,813)	–

	<i>Notes</i>	2014	2013
Cash received from the capital injection from non-controlling shareholders of subsidiaries		–	18,844
Dividends paid to the Company’s shareholders		(60,046)	–
Dividends paid to non-controlling shareholders of a subsidiary		(4,334)	(243)
		<hr/>	<hr/>
Net cash flows from financing activities		3,970,875	2,321,719
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(801,753)	88,533
Cash and cash equivalents at beginning of year		1,382,220	1,253,004
Effect of foreign exchange rate changes, net		(8,288)	40,683
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		572,179	1,382,220
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

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

	Attributable to owners of the parent										
	Issued capital and premium	Asset revaluation reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Proposed final dividend	Total	Non- controlling interests	Total equity
At 1 January 2014	6,000,738	1,211*	367,249*	1,740,855*	(397,261)*	2,810*	1,454,952	60,046	9,230,600	322,755	9,553,355
Total comprehensive income for the year	-	-	-	(31,657)	-	-	(105,954)	-	(137,611)	250,978	113,367
Appropriation from retained profits	-	-	1,262	-	-	-	(1,262)	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	21,878	21,878
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(20,430)	(20,430)
Change due to increase in equity interests in subsidiaries	-	-	-	-	192	-	-	-	192	(445)	(253)
Change due to decrease in equity interests in subsidiaries	-	-	-	-	3,596	-	-	-	3,596	(3,598)	(2)
Dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(4,334)	(4,334)
Transfer upon the redemption of CB4	-	-	-	-	2,810	(2,810)	-	-	-	-	-
Final 2013 dividend distribution	-	-	-	-	-	-	-	(60,046)	(60,046)	-	(60,046)
At 31 December 2014	<u>6,000,738</u>	<u>1,211*</u>	<u>368,511*</u>	<u>1,709,198*</u>	<u>(390,663)*</u>	<u>-*</u>	<u>1,347,736</u>	<u>-</u>	<u>9,036,731</u>	<u>566,804</u>	<u>9,603,535</u>
At 1 January 2013	6,000,738	1,211*	320,136*	1,460,228*	(89,069)*	2,810*	1,361,940	-	9,057,994	704,340	9,762,334
Total comprehensive income for the year	-	-	-	280,627	-	-	200,171	-	480,798	19,441	500,239
Appropriation from retained profits	-	-	47,113	-	-	-	(47,113)	-	-	-	-
Acquisition of a non-controlling interest	-	-	-	-	(308,192)	-	-	-	(308,192)	(417,321)	(725,513)
Capital contribution from non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	18,844	18,844
Dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(2,549)	(2,549)
Proposed final 2013 dividend (Note 8)	-	-	-	-	-	-	(60,046)	60,046	-	-	-
At 31 December 2013	<u>6,000,738</u>	<u>1,211*</u>	<u>367,249*</u>	<u>1,740,855*</u>	<u>(397,261)*</u>	<u>2,810*</u>	<u>1,454,952</u>	<u>60,046</u>	<u>9,230,600</u>	<u>322,755</u>	<u>9,553,355</u>

* These reserve accounts comprise the consolidated reserves of HK\$1,688,257 thousand (2013: HK\$1,714,864 thousand) in the consolidated statement of financial position.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap.622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements 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.

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 12 months. The Group’s current assets include assets (such as properties held or under development for sale and land 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 12 months after the end of the reporting period.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year’s financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	<i>Investment Entities</i>
Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>
<i>Annual Improvements 2010-2012 Cycle</i>	Amendment to HKFRS 2 <i>Definition of Vesting Condition</i> ¹
<i>Annual Improvements 2010-2012 Cycle</i>	Amendment to HKFRS 3 <i>Accounting for Contingent Consideration in a Business Combination</i> ¹
<i>Annual Improvements 2010-2012 Cycle</i>	Amendment to HKFRS 13 <i>Short-term Receivables and Payables</i>
<i>Annual Improvements 2010-2012 Cycle</i>	Amendment to HKFRS 1 <i>Meaning of Effective HKFRSs</i>

¹ Effective from 1 July 2014

The adoption of the revised standards and new interpretation has had no significant effect on these financial statements.

3. 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 at the then prevailing market prices.

An analysis by operating segment is as follows:

	2014				
	Property development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	960,402	106,078	183,755	189,721	1,439,956
Intersegment sales	–	–	–	60,973	60,973
	<u>960,402</u>	<u>106,078</u>	<u>183,755</u>	<u>250,694</u>	<u>1,500,929</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					(60,973)
Revenue					<u>1,439,956</u>
Segment profit/(loss)	<u>(92,034)</u>	<u>1,047,315</u>	<u>9,160</u>	<u>(40,448)</u>	<u>923,993</u>
Finance income					99,204
Finance costs					(456,753)
Finance costs – net					(357,549)
Share of profits of associates					1,431
Profit before tax					<u>567,875</u>
Segment assets and liabilities					
Segment assets	<u>27,944,150</u>	<u>6,721,673</u>	<u>1,817,413</u>	<u>786,135</u>	<u>37,269,371</u>
Investments in associates					57,512
Total assets					<u>37,326,883</u>
Segment liabilities	<u>20,843,829</u>	<u>3,123,360</u>	<u>980,598</u>	<u>2,775,561</u>	<u>27,723,348</u>
Total liabilities	<u>20,843,829</u>	<u>3,123,360</u>	<u>980,598</u>	<u>2,775,561</u>	<u>27,723,348</u>
Other segment information:					
Depreciation and amortisation	7,417	271	45,489	2,034	55,211
Capital expenditure*	4,093	5,402	387,199	6,111	402,805
Fair value gain on investment properties, net	–	993,326	–	–	993,326
Impairment of goodwill	79,398	–	–	–	79,398

* Capital expenditure consists of additions of property, plant and equipment (HK\$397,447 thousand) and investment properties (HK\$5,358 thousand).

	2013				
	Property development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue					
Sales to external customers	2,897,110	88,094	184,073	175,001	3,344,278
Intersegment sales	–	–	–	457,470	457,470
	<u>2,897,110</u>	<u>88,094</u>	<u>184,073</u>	<u>632,471</u>	<u>3,801,748</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(457,470)</u>
Revenue					<u>3,344,278</u>
Segment profit/(loss)	<u>586,838</u>	<u>202,425</u>	<u>20,963</u>	<u>(50,671)</u>	<u>759,555</u>
Finance income					87,455
Finance costs					<u>(352,117)</u>
Finance costs – net					<u>(264,662)</u>
Share of profits of associates					<u>4,846</u>
Profit before tax					<u>499,739</u>
Segment assets and liabilities					
Segment assets	<u>24,447,240</u>	<u>5,221,938</u>	<u>1,475,883</u>	<u>819,189</u>	<u>31,964,250</u>
Investments in associates					<u>75,939</u>
Total assets					<u>32,040,189</u>
Segment liabilities	<u>17,180,296</u>	<u>2,243,786</u>	<u>670,930</u>	<u>2,391,822</u>	<u>22,486,834</u>
Total liabilities	<u>17,180,296</u>	<u>2,243,786</u>	<u>670,930</u>	<u>2,391,822</u>	<u>22,486,834</u>
Other segment information:					
Depreciation and amortisation	11,332	299	39,818	1,734	53,183
Capital expenditure*	1,417	6,068	543,978	2,171	553,634
Fair value gain on investment properties, net	–	166,291	–	–	166,291
Impairment of goodwill	17,206	–	–	–	17,206
Reversal for impairment of receivables	817	–	–	–	817

* Capital expenditure consists of additions of property, plant and equipment (HK\$547,670 thousand) and investment properties (HK\$5,964 thousand).

Geographical information

- (a) As of 31 December 2014, 100% (2013: more than 95%) of the sales to external customers of the Group are generated from Mainland China.
- (b) Non-current assets

As of 31 December 2014, more than 99% (2013: more than 99%) of the Group's non-current assets (based on the locations of the assets and excludes financial instruments and deferred tax assets) were located in Mainland China.

Information about major customers

The Group's customers from whom the revenue derived are widely dispersed. No customer or a single group of customers which are known to be under common control contributed 10% or more of the Group's revenue for the years ended 31 December 2014 and 2013.

4. 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; room charges from hotel operations and gross rental income received and receivable from investment properties during the year.

An analysis of revenue is as follows:

	2014	2013
Sale of development properties	1,021,621	3,057,046
Hotel operations	194,757	195,092
Revenue from property leasing	115,685	96,596
Property management revenue	172,205	154,210
Revenue from construction of infrastructure for an intelligent network	21,914	35,262
Other revenue	15,486	14,801
	<u>1,541,668</u>	<u>3,553,007</u>
Less: Business tax and surcharges	(101,712)	(208,729)
Total revenue	<u><u>1,439,956</u></u>	<u><u>3,344,278</u></u>

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.

5. EXPENSE BY NATURE

	2014	2013
Cost of inventories sold (excluding depreciation)	1,089,697	2,350,149
Depreciation of items of property, plant and equipment	50,468	48,732
Employee benefit expense (including directors' and chief executive's emoluments):		
– Wages and salaries	103,018	89,036
– Other social welfare	23,816	25,835
	<u>126,834</u>	<u>114,871</u>
Operating lease payments in respect of buildings	4,956	7,742
Auditors' remuneration	5,275	5,439
Commission for sale of properties	16,063	23,419
Advertising costs	25,547	40,290
Miscellaneous tax	47,632	43,348
Transportation fee	11,746	11,728
Office expenses	5,961	5,942
Exhibition fees	3,609	3,718
Water and electricity costs	5,978	6,485
Business entertainment expenses	7,775	8,915
Others	79,219	62,340
	<u><u>1,480,760</u></u>	<u><u>2,733,118</u></u>

6. INCOME TAX

	2014	2013
Current taxation		
– Mainland China income tax (a)	15,963	105,533
– Mainland China LAT (c)	77,176	165,550
	<u>93,139</u>	<u>271,083</u>
Deferred taxation		
– Mainland China income tax	388,293	86,876
– Mainland China LAT	(49,739)	(74,136)
– Mainland China withholding tax (d)	(8,093)	10,786
	<u>330,461</u>	<u>23,526</u>
Total tax charge for the year	<u><u>423,600</u></u>	<u><u>294,609</u></u>

(a) Mainland China income tax

The Group conducts a significant portion 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. The outstanding balance of prepaid income tax was approximately HK\$81 million as at 31 December 2014 (2013: HK\$35 million).

(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 year.

(c) Mainland China land appreciation tax (“LAT”)

LAT is incurred upon transfer of property and land 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 5% (2013: 1.5% to 4.5%) on proceeds of the sale and pre-sale of properties. Prepaid LAT has been recorded in “prepaid income tax” with an amount of approximately HK\$160 million as at 31 December 2014 (2013: approximately HK\$136 million).

(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 Mainland China 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.

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/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 of 5,664,713 thousand (2013: 5,664,713 thousand) in issue during the year.

For the year ended 31 December 2013, the calculation of diluted earnings per share amounts did not take into account the convertible bonds of the Company, because they are anti-dilutive. Hence, the diluted earnings per share amounts are the same as the basic earnings per share for the year ended 31 December 2013.

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

	2014	2013
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	<u>(105,954)</u>	<u>200,171</u>
	Number of shares	
	2014	2013
Shares	<i>(Thousand shares)</i>	<i>(Thousand shares)</i>
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	<u>5,664,713</u>	<u>5,664,713</u>

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.

8. DIVIDENDS PAID AND PROPOSED

	2014	2013
Proposed final dividend	<u>–</u>	<u>60,046</u>

The Board of Directors has resolved not to recommend the payment of final dividend in respect of the year ended 31 December 2014 (2013: HK1.06 cents per share).

The 2013 proposed final dividend totaling HK\$60,046,000 of HK1.06 cents per share was approved by the Company's shareholders at the annual general meeting on 29 May 2014 and was distributed in July 2014.

9. TRADE RECEIVABLES

GROUP

	2014	2013
Trade receivables	57,498	45,680
Less: Provision for impairment	(10,142)	(10,177)
	<u>47,356</u>	<u>35,503</u>

An aged analysis of trade receivables as at the end of the reporting period, from the date when they were recognised, is as follows:

	2014	2013
Within 6 months	37,164	26,176
6 months to 1 year	1,632	379
1 to 2 years	1,019	7,913
Over 2 years	17,683	11,212
	<u>57,498</u>	<u>45,680</u>

The Group's sales of development properties and hotel operations are generally on a cash basis while the Group's trading terms with its customers for other operations are mainly on credit. The credit terms of the Group are generally within 6 months.

The Group's other trade receivables are related to a large number of diversified customers. There is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables neither past due nor impaired and those past due but not impaired is as follows:

	2014	2013
Neither past due nor impaired	41,343	31,702
Past due but not impaired:		
Within 30 days	280	130
30 to 60 days	–	1,954
60 to 90 days	551	–
Over 120 days	5,182	1,717
	<u>47,356</u>	<u>35,503</u>

Receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in the provision for impairment of trade receivables are as follows:

	2014	2013
At beginning of year	10,177	10,617
Reversal of impairment	–	(773)
Exchange realignment	(35)	333
	<hr/>	<hr/>
At end of year	10,142	10,177
	<hr/> <hr/>	<hr/> <hr/>

No provision for impairment of trade receivables (2013: HK\$773 thousand) was reversed during the year ended 31 December 2014.

10. TRADE PAYABLES

GROUP

An aged analysis of the trade payables as at the end of the reporting period, from the date when they were incurred, is as follows:

	2014	2013
Within 1 year	1,426,815	1,169,764
1 to 2 years	371,478	433,290
Over 2 years	337,344	200,989
	<hr/>	<hr/>
	2,135,637	1,804,043
	<hr/> <hr/>	<hr/> <hr/>

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

11. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash used in operations:

	2014	2013
Profit before tax	567,875	499,739
Adjustments for:		
Depreciation of items of property, plant and equipment	50,468	48,732
Amortisation of intangible assets	266	–
Reversal of impairment of receivables	–	(817)
(Gain)/loss on disposal of items of property, plant and equipment, net	(43,079)	2,407
Share of profits of associates	(1,431)	(4,846)
Fair value gain on investment properties	(993,326)	(166,291)
Impairment of goodwill	79,398	17,206
Gain on disposal of subsidiaries	(1,662)	–
Finance income	(99,204)	(87,455)
Finance costs	456,753	352,117
	<u>16,058</u>	<u>660,792</u>
Decrease in restricted bank deposits	7,136	998
(Increase)/decrease in prepaid land lease payments	(960,697)	310,166
Increase in properties held or under development for sale	(796,051)	(214,931)
Increase in inventories	(19,625)	(225)
Increase in prepayments and other current assets	(2,218,161)	(950,273)
Decrease in other receivables	46,245	160,240
Increase in trade receivables	(10,890)	(3,353)
Increase/(decrease) in trade payables	250,059	(586,757)
Increase/(decrease) in other payables and accruals	331,781	(473,002)
Increase/(decrease) in advances received from the pre-sale of properties under development	367,741	(360,302)
	<u>367,741</u>	<u>(360,302)</u>
Cash used in operations	<u><u>(2,986,404)</u></u>	<u><u>(1,456,647)</u></u>

RESULTS AND DIVIDEND

In 2014, the Group recorded net revenue of approximately HK\$1,440 million (2013: HK\$3,344 million), which represents a decrease by approximately 57% compared with that of 2013. Loss attributable to owners of the parent in 2014 was approximately HK\$106 million while profit attributable to shareholders in 2013 was approximately HK\$200 million. The performance worsened mainly because of the slackening of the property market in Mainland China.

The Board of Directors has resolved not to recommend the payment of final dividend in respect of the year ended 31 December 2014 (2013: HK1.06 cents per share).

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2014, cash and bank balances amounted to approximately HK\$2,109 million (2013: HK\$2,941 million). Working capital (net current assets) of the Group as at 31 December 2014 amounted to approximately HK\$14,534 million (2013: HK\$13,791 million), representing an increase of 5% as compared with the preceding year, and the current ratio was approximately 2.10x (2013: 2.34x).

As at 31 December 2014, total liabilities to total equity increased to 2.89x (2013: 2.35x). At the end of the financial period, the Group's gearing ratio was approximately 65% (2013: 57%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance of approximately HK\$2,109 million) over total capital (total equity and net borrowings).

BUSINESS REVIEW

In 2014, the Group's major projects available for sale were Shanghai Albany Oasis Garden, SRE Financial Centre, Cedar Villa Original, Oasis Central Ring Centre, Huating Project (previously known as "Bairun Project") and Shanghai Lake Malaren Garden in Shanghai; Jiaxing Project in Zhejiang; Haikou Bund Centre in Haikou and Shenyang Albany Oasis Garden in Liaoning. From January to December 2014, the Group's contracted sales amounted to HK\$1.779 billion, with a total gross floor area of approximately 41,000 square meters.

Project Company	Amount of sales Contracts Signed (HK\$<i>x1000</i>)	Contractual Gross Area (<i>m</i>²)
Shanghai Albany Oasis Garden	1,287,327	17,144
SRE Financial Centre	134,616	2,519
Shanghai Cedar Villa Original	97,978	3,214
Shenyang Albany Oasis Garden	77,314	10,327
Shanghai Oasis Central Ring Centre	61,559	1,578
Huating Project	40,523	441
Shanghai Lake Malaren Garden	27,834	1,086
Jiaxing Project	17,436	1,702
Haikou Bund Centre	14,458	777
Shanghai Rich Gates Seaview	10,374	622
Other Projects	9,930	1,551
Total	1,779,349	40,961

In 2014, the Group recorded a net turnover of HK\$1.440 billion (2013: HK\$3.344 billion). Gross profit for 2014 amounted to approximately HK\$0.307 billion (2013: HK\$0.956 billion). Gross profit margin for 2014 was about 21.3% (2013: 28.6%).

Net turnover breakdown by activity

Turnover	2014 (HK\$ <i>x</i> 1000)	2013 (HK\$ <i>x</i> 1000)
Sale of development properties	1,021,621	3,057,046
Hotel operations	194,757	195,092
Revenue from property leasing	115,685	96,596
Property management revenue	172,205	154,210
Revenue from construction of infrastructure for an intelligent network	21,914	35,262
Other revenue	15,486	14,801
Less: Business tax and surcharges	(101,712)	(208,729)
Total revenue	<u>1,439,956</u>	<u>3,344,278</u>

Under the influence of the macro environment that the real estate market had been going downhill continually and that the transaction volume significantly declined, the Group's revenue from sales of properties for 2014 substantially decreased as compared with the preceding year.

DEVELOPMENT PROJECTS

Our development projects mainly included Shanghai Albany Oasis Garden and Huating Project in Shanghai, and Shenyang Albany Oasis Garden and Yosemite Oasis Community in Liaoning.

Relocation for Land of Development Projects

Shanghai Albany Oasis Garden

As at the end of December 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. The former covered all households of Phase III which had been 100% relocated.

Rich Gate I (Qinhai Oasis Garden)

As at the end of December 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 precinct for 2014 urban renewal for both Shanghai Municipality and Huangpu District, and the House Acquisition Agreement had been signed with Shanghai Huangpu District Construction and Traffic Committee.

Shenyang Albany Oasis Garden

As at the end of December 2014, with 1,393 households (area: 90,259 m²) and 13 enterprises (area: 3,062 m²) relocated, relocation was 84% completed, which lay a solid foundation for the development of Phase III.

Construction Work

Shanghai Albany Oasis Garden

As of the end of 2014, the structures of Shanghai Albany Oasis Garden Phase III block 1 to block 4 and block 7 were topped out. It is expected that the structures of block 5 and block 6 will be topped out in May 2015; the structures of block 8 and block 9 will be topped out in July 2015, and the structures of block 10 and block 12 will be topped out in December 2015. It is expected that construction of Phase III will be completed in August 2016.

Huating Project

As of December 2014, the main structures of block 1 to block 5 and block 7 of Huating Project were completed, while surface insulation and water proof works of block 6 were in process. It is expected that construction works will be completed by June 2016.

Shenyang Yosemite Oasis Community

The East Parcel of Shenyang Yosemite Oasis Community consists of 502 houses. For the 200 houses located at Jinling Section, construction was completed and titles have been transferred to buyers in June 2014. For the 302 units located at Shuangxing Section, the main structures have been topped out, the construction of ancillary facilities was 85% completed. It is expected that these houses will be completed with the sold units ready for handover to buyers in July 2015.

Shenyang Albany Oasis Garden

Regarding Shenyang Albany Oasis Garden Phase II, as of December 2014, the exterior wall insulation works for block 1, block 2 and block 4 were 95% completed, the stone walls were 95% completed, and the exterior wall insulation works for Carrefour (家樂福) were entirely completed. It is expected that construction of Section A of Phase II will be completed in 2015, and construction of Section B will be completed in 2016.

COMMERCIAL PROPERTIES

The Group has five major commercial real estate projects: four in Shanghai and one in Shenyang. Under the influence of the prevailing austerity measures, the suppressed housing market has nonetheless underscored the trend of increasing investment toward commercial real estate as the prospect of which becomes more promising. The stable development of commercial real estate will make an increasingly important contribution to our revenue.

Commercial Property	Location	Details
Shanghai Skyway Pullman Hotel	Huangpu District, Shanghai	309 rooms
SRE Financial Centre	Huangpu District, Shanghai	Approx. 28,000 m ²
Oasis Central Ring Centre	Putuo District, Shanghai	96,146 m ²
Shanghai Shuocheng Supermarket	Zhabei District, Shanghai	Approx. 24,000 m ²
Shenyang Rich Gate Shopping Mall	Financial Golden Corridor, Shenyang	245,252 m ²

THE GROUP'S AWARDS

Awards of the Group

1. SRE Group was named as “2014 China Top 10 Property Developers – Tourist Property”, “2014 China Top 100 Real Estate Companies”.
2. Shanghai Albany Oasis Garden was named as “2014 City Centre High End Residential Property Model Prize” by 《新民晚報》, and as “2014 Most Livable Home for Humanities” by 《第一地產》 and “2014 Most Influential Property Project” by Sohu and Sohu Focus.
3. Shanghai Shuo Cheng Real Estate Limited was named as “Five-star Trustworthy Enterprise” of Shanghai city.
4. Jiaxing Project – 上置香島瀾灣 was awarded “the City Golden Horse Prize – the Quintessence of the Most Influential Luxury Home in Jiaxing” by Jiaxing Daily 《嘉興日報》 and “the Quintessence of Elegant and Fashionable Jiaxing Lakeview Residence” by Tencent.
5. Shanghai Wingo Infrastructure Co. Ltd. obtained GB/T 19001-2008/ISO 9001:2008 “Quality Management System” and GB/T 50430-2007 “Quality Management Standards for Construction and Engineering Enterprise”.

BUSINESS OUTLOOK

In May 2014, on a month-on-month basis, the average price of residential properties of one hundred cities declined for the first time after rising for 23 months consecutively, falling 0.32%. In September, the decline expanded to 0.92%. In the fourth quarter, the decline narrowed, and in December, the average price fell 0.44% on a month-on-month basis. The property prices of the hundred cities hence fell continuously. Supply exceeded demand in major cities. The growth rate of investment in real estate development fell to a new low for the past 5 years. In the financial arena, the equity capital market was reopened; the issuance of medium term notes became less restrictive; there were more equity financing and debt financing activities by listed property companies, and financing channels became more diversified. Government policies focused on stability. The adjustment of monetary policies together with long term and effective measures such as reform of household register and shanty area transformation helped maintain home purchase demand at a reasonable level. The measures of purchase restrictions and mortgage restrictions were gradually removed; the administrative interference was weakening; owing to all these and owing to several rounds of policy adjustments for credits and loans against provident fund and government subsidies, demand for residential properties was stimulated, accelerating the reduction of inventory of residential properties and stabilizing spending in home purchase. The controlling measures as a whole emphasized more on supporting rational spending in home purchase, and would stimulate the vitality of the property market in the medium to long run, and would be beneficial to the stable and healthy development of the real estate market.

According to the Statistical Communique on the 2014 National Economic and Social Development published by the China National Statistics Bureau, total investment in real estate development in 2014 amounted to RMB9.5036 trillion, an increase of 10.5% over the previous year, of which, investment in residential buildings accounted for RMB6.4352 trillion, an increase of 9.2%; investment in office buildings accounted for RMB564.1 billion, an increase of 21.3%; investment in commercial properties accounted for RMB1.4346 trillion, an increase of 20.1%.

In 2014, investment in real estate development in Shanghai amounted to RMB320.648 billion, representing a year-on-year increase of 13.7%. A total area of 20.8466 million m² of commodity properties were sold throughout the year, representing a decrease of 12.5%, of which, total area of commodity housing amounted to 17.8091 million m², representing a decrease of 11.7%. Sales of commodity properties amounted to RMB349.953 billion, representing a decrease of 10.5%, of which, sales of commodity housing amounted to RMB292.344 billion, representing an increase of 10.4%.

2015 is a critical year for the deepening of the no holds barred reform. The central government will actively develop a new model of urbanization which shall become a new driving force for the growth of the economy. At the same time, policies in terms of monetary, fiscal and tax measures for the purpose of supporting reasonable spending on home purchase will be further strengthened. The austerity measures to rein in the real estate sector will revert to market-orientated measures. The policies of local governments will become more flexible. Policies with long term effects including inter alia promulgation of real estate tax laws, land system reform and other reforms will gradually replace short term regulatory measures. The government's work report emphasizes on stabilizing home purchase spending, policy differentiation

for various segments, geographically-orientated policies, imposing primary responsibilities over local governments, supporting self-use demand and improvement-of-living condition demand for housing, and helping improve the stable and healthy development of the real estate market. Under such circumstances, the mode of competition amongst property companies will become “quality-focused and differentiation-oriented”.

The real estate industry will accelerate its pace of transformation towards liberalization. The growth rate will return to a level which is reasonable and sustainable. For real estate enterprises, profits to be generated from residential property development will continue to be squeezed, and they need to make changes or at least adjustments according to the characteristics of their own businesses and their resources level. In 2015, the Group will economically face a period of gear changing. It will also be the period for it to digest the high financial leverage resulted from its expansion in the past. Owing to the commencement of sales of Shanghai Albany Phase III, Shanghai Huangpu Huating, and Shenyang Albany Phase II, and the commencement of relocation works of Shanghai Rich Gate I and Shanghai Albany Phase IV, the Group’s sales for the coming 5 years will have a chance to be significantly increased. When the relocation projects start to move and sales revenue starts to roll in, the problem of high financial leverage will be resolved. In the next round of reshuffling, taking advantage of the opportunity arising from the market reform towards liberalization, the Group will expeditiously adjust its strategies so as to: through reallocation of its resources, improve its operating capabilities, and at the same time enhance its efficiency over investment, cost control, marketing and others; through ushering in fund houses and offloading assets, diversify its sources of income; through promoting innovative product packages with financial products embedded in the sale of properties and monetization of real estate business, reduce its financial costs and shorten the turn-around time of its projects; abandon the conventional mode of development and develop new projects with emphasis on themes of the projects and orientation towards the youth. In 2015, the Group will focus more in Shanghai, and will, through reallocation of its resources and readjustment of its product mix, endeavor to maintain a stable growth.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year ended 31 December 2014.

EMPLOYEE

As at 31 December 2014, the Group had retained 2,153 (2013: 2,184) employees in Hong Kong and the PRC. Total staff costs of the Group, excluding directors’ remuneration, for the year under review amounted to approximately HK\$171 million (2013: HK\$152 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of each individual employee.

CORPORATE GOVERNANCE

The Board had reviewed its corporate governance practices throughout the financial year, 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 HKEx (the “**Listing Rules**”) except Code Provision 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 engagements.

In addition, due to Mr. Jiang Xie Fu’s resignation as an independent non-executive director (“**INED**”) and the chairman of the Audit Committee, 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 Audit Committee of the Company shall form the majority of the Audit Committee of the Company and the Audit Committee 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 Audit Committee on 14 August 2014, such non-compliances were rectified.

DIRECTORS’ COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”). Specific enquiry has been made of all Directors, who have confirmed that they complied with required standard set out in the Model Code.

AUDIT COMMITTEE

The Company established an audit committee on 12 November 2001 with terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee has five members comprising the two non-executive Directors and the three independent non-executive Directors. The annual results for the year ended 31 December 2014 has been reviewed by the Audit Committee.

APPRECIATION

It is my privilege to express my gratitude to our strategic investors and shareholders for their unstinting trust and support and to offer my heartfelt thanks to all directors, executives and staff members at all group companies for their team spirits and loyalty throughout the past difficult and challenging year.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement of the Company is published on the websites of the Company (<http://www.equitynet.com.hk/sre/>) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The annual report of the Company for 2014 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the above websites in due course.

On Behalf of the Board
SRE Group Limited
SHI JIAN
Chairman

Hong Kong, 27 March 2015

As at the date hereof, the Board comprises six executive directors, namely Mr. Shi Jian, Mr. Wang Zi Xiong, Mr. Ma Dayu, Mr. Li Genfa, 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. Chan, Charles Sheung Wai, Mr. Yang Chao and Mr. Guoping.

** For identification purpose only*