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SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

INSIDE INFORMATION

**UPDATE ON THE FINDINGS OF THE INVESTIGATION COMMITTEE
AND
RESUMPTION OF TRADING**

This announcement is made by SRE Group Limited (the “**Company**”) pursuant to Rules 13.09(2) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.

Reference is made to the Company’s announcement dated 24 September 2015 (the “**Financing Transactions Announcement**”) in relation to, inter alia, the Financing Transactions executed by Mr. Shi with third party financial institutions to guarantee and secure the indebtedness of the Connected Persons (the “**Third Party Indebtedness**”). Unless the context otherwise requires, capitalized terms in this announcement shall have the same meanings as defined in the Financing Transactions Announcement.

UPDATE ON THE FINDINGS OF THE INVESTIGATION COMMITTEE

As disclosed in the Financing Transactions Announcement, the Board has established the Investigation Committee, comprising all the independent non-executive Directors as members, to further investigate the Financing Transactions and to review the internal control system of the Group.

Up to the date of this announcement, the following work has been performed to identify unreported transactions, if any, which might have been executed by Mr. Shi for and on behalf of the Group prior to his custody at a designated residence as required by the Changzhou City People's Procuratorate of the People's Republic of China (the "PRC") as announced by the Company on 9 June 2015 and his suspension of duties on 21 September 2015:

- (1) A special task force (the "**Investigation Team**") comprising Mr. Ma Dayu, Mr. Wang Pei Liang and Ms. Cai Hongcha was formed to investigate the Financing Transactions and all works executed by Mr. Shi for the Group in the past. Mr. Ma, an Executive Director of the Company, is responsible for supervising the work of the Investigation Team and conducting enquiries with the family of Mr. Shi, SREI and SREI Directors. Mr. Wang, a Vice-President of the Group, has solid background and expertise relating to finance and is responsible for detailed review of financing-related contracts and documents and making contacts with banks. Ms. Cai, Head of Group Comprehensive Engineering Department, is familiar with the internal control, approval process and reporting lines of the Group and is responsible for detailed review of internal control records of the Group. No member of the Investigation Team is connected to Mr. Shi or SREI.
- (2) All physical and electronic documents possessed in Mr. Shi's office have been retrieved and were reviewed by the Investigation Team.
- (3) The Investigation Team has conducted a series of internal interviews within the Group and external interviews with third parties. These included interviews with (i) key responsible officers of the Group and the Connected Persons, (ii) Madam Si Xiao Dong (spouse of Mr. Shi), Mr. Shi Janson Bing (son of Mr. Shi, Vice-chairman and Executive Director of the Company) and the other two directors of SREI, and (iii) the bank managers of the banks which have business relationship with the Company, SREI and the Connected Persons. The Investigation Team has also obtained confirmations from the lenders of the loans relating to the Financing Transactions, acknowledging that they are not aware of any other unreported financing transactions.
- (4) The Investigation Team has reviewed the existing internal control system and records of the Group.
- (5) The Investigation Team has reviewed the basic credit information reports provided by the credit reference system of the People's Bank of China as of October 2015. These credit reports did not reveal any other unreported transactions apart from the Financing Transactions.

Based on the Investigation Team's findings, and subject to further updates to be reported by the independent internal control adviser and forensic specialist, the Investigation Committee is of the view that:

- (1) Each of the Financing Transactions was executed or procured by a single Director, Mr. Shi, on behalf of the Company without the knowledge of the other Directors at the relevant time.
- (2) The Financing Transactions comprised a series of transactions relating to the Disposal Agreement entered into by SREI on 10 October 2013 or otherwise relating to the Disposal Assets or SREI and did not arise from six separate incidents of internal control failure.

- (3) Mr. Shi and SREI have no side business and all businesses of Mr. Shi and SREI were property in nature and were conducted through the Company, CNTD and Black Eagle.
- (4) The work performed by the Investigation Team did not reveal any other unreported transactions apart from the Financing Transactions which have been disclosed in the Financing Transactions Announcement.
- (5) The Company has put in place sufficient safeguards to monitor the provision of guarantee and collateral by the Group to parties outside the Group. No significant design failure or ineffectiveness of the Group's internal control system was identified.
- (6) In light of the evidence obtained or reviewed by the Investigation Team, the incidents arising from the Financing Transactions might have been resulted from the intentional circumvention of the internal control procedures by Mr. Shi.

The Investigation Committee has resolved to carry out the following procedures to prevent the occurrence of similar incidents in future:

- (1) On 21 September 2015, the Board has already suspended all executive functions of Mr. Shi in the Group with immediate effect. In light of the Investigation Team's findings, the Board and the Investigation Committee consider that it is no longer appropriate for Mr. Shi to continue to be a director of the Company or its subsidiaries. The Company is carrying out steps to remove Mr. Shi from the board of directors of the Company and its subsidiaries.
- (2) The Board will engage a qualified internal control adviser to carry out a thorough internal control review on the Group and to make recommendations to the Company. Upon completion of this process, the Company will publish the key findings of the internal control review report by way of announcement.
- (3) The Board will also engage an independent forensic specialist to conduct a forensic investigation on the incidents arising from the Financing Transactions and to assess the impact on the Company's financial and operational position. Upon completion of this process, the Company will publish the key findings of the forensic investigation report by way of announcement.
- (4) Immediate actions have been taken to further tighten the internal control procedures of the Group as regards the use of company chops and seals, applications for loans and facilities and the provision of guarantees, indemnities, charges and pledges, and clear guidance and reiteration of the reporting line and approval process for all financing transactions.

The Directors confirm that, to their best information and knowledge having made all reasonable enquiries, there is no other inside information which falls to be disclosed under the Listing Rules but has not been disclosed.

PROPOSAL OF REMEDIAL MEASURES IN RESPECT OF THE FINANCING TRANSACTIONS

As disclosed in the Company's announcement dated 12 October 2015 (the "**Subscription Announcement**"), the Company and China Minsheng Jiaye Investment Co., Ltd. ("**China Minsheng Jiaye**") entered into a subscription agreement (the "**Subscription Agreement**") for the subscription of shares in the Company (the "**Subscription**"). Details of the Subscription, and the reasons for and benefits of the entering into of the Subscription, were more particularly stated in the Subscription Announcement.

As disclosed in the Subscription Announcement, with a view to remedying the undesirable financial implications of the Group's exposure to the contingent liabilities of the Third Party Indebtedness, China Minsheng Jiaye will, upon completion of the Subscription, provide a back-to-back indemnity in favour of the Company to indemnify and hold harmless the Group from and against any losses and costs that it has incurred as a result of the performance of the Financing Transactions by the Group (the "**CMJI Indemnity**"), on the term that the Company shall account to China Minsheng Jiaye any proceeds, compensation or money that it may have received or recovered from any persons in relation to the Third Party Indebtedness as a result of the enforcement of the existing collateral provided to the lending banks by the borrowers of the Third Party Indebtedness or otherwise.

To further mitigate the potential loss arising from the Financing Transactions, on 3 November 2015, each of SREI and Madam Si Xiao Dong has entered into an irrevocable and unconditional undertaking in favour of the Company (on its own and its subsidiaries' behalf) to indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions (the "**Indemnities**").

The Directors are of the view that the Indemnities will, together with the CMJI Indemnity, be able to relieve the Group of the undesirable risk exposure, contingent liabilities and uncertainties caused by the Financing Transactions.

NO NEED FOR PROVISION OR RE-STATEMENT OF NET ASSETS AND NET PROFITS

The Company has carefully considered the existing disclosure of the Company's Annual Reports, taking into account, in particular, the facts that: (a) there has been no default in repayment of the borrowers on any of the loans; (b) all the loans secured by the Financing Transactions (save and except the Fifth Loan with an outstanding balance of RMB25,000,000) were also secured by the Security by Connected Persons, with market value of the Security by Connected Persons being above the current outstanding balance of the loans; (c) the Company was informed by the borrowers that they intend to make, and are capable of making, punctual repayments on the loans in accordance with the repayment schedules; (d) subject to completion of the Subscription, China Minsheng Jiaye has agreed to provide the CMJI Indemnity to fully indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions; and (e) each of SREI and Madam Si Xiao Dong also provided the Indemnities to indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions.

After considering the above, in particular the provision of the CMJI Indemnity and the Indemnities in favour of the Company, the Company is of the view that (a) no provision is required to be made in connection with the provision of guarantees and collaterals under the Financing Transactions; and (b) there is no need to restate the net assets and net profit of the Group as reported in the Company's Annual Report for 2014 and previous years if all conditions stated in the paragraph above are satisfied.

IMPACT OF THE MAJOR TRANSACTION ON THE THIRD AND FOURTH FINANCING TRANSACTIONS

Reference is made to the Company's announcement dated 30 October 2015 (the "**Major Transaction Announcement**") in relation to the disposal of 60% equity interest and shareholders' loan in the Target Company (the 100% holding company of Shanghai Shuo Cheng) by the Vendor (a wholly-owned subsidiary of the Company). Unless the context otherwise requires, capitalized terms in this section shall have the same meanings as defined in the Major Transaction Announcement.

As disclosed in the Financing Transactions Announcement, guarantees were provided by, inter alia, the Company and Shanghai Shuo Cheng to the lender to secure (a) the repayment obligations of SGLD in relation to the SGLD Relevant Assets (which were subsequently novated by SGLD to Malaren Management) under the Third Financing Transaction; and (b) the repayment obligations of Malaren Hospital under the Fourth Financing Transaction. As the Company and Shanghai Shuo Cheng were co-guarantors under the Third and Fourth Financing Transactions, the Company does not expect the Disposal to result in any adverse effect on the risk exposure of the Group under the Third and Fourth Financing Transactions.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 22 September 2015 pending the release of announcement(s) relating to the Financing Transactions which may constitute notifiable transaction(s) and/or connected transaction(s) and which constitute inside information of the Company.

The Company will closely monitor the development of the matters relating to the Financing Transactions and will make further announcements as and when there is significant development of the matters. So far as the Company is aware, as at the date of this announcement, there is no other inside information that is required to be disclosed.

An application has been made for resumption of the trading of the Shares on the Stock Exchange with effect from 9:00 a.m. on 4 November 2015.

Shareholders and potential investors in the Company are urged to exercise caution when dealing in the securities of the Company.

By Order of the Board
SRE Group Limited
Wang Zi Xiong
Co-chairman & Chief Executive Officer

Hong Kong, 3 November 2015

As at the date of this announcement, the Board comprises six executive directors, namely Mr. Shi Jian, Mr. Wang Zi Xiong, Mr. Shi Janson Bing, Mr. Ma Dayu, Mr. Li Genfa 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*