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SRE GROUP LIMITED
上置集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1207)

UPDATE ON THE FINDINGS OF THE INDEPENDENT FORENSIC SPECIALIST

Reference is made to the Company's announcements dated 24 September 2015 and 3 November 2015 (the "**Announcements**") 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. Unless the context otherwise requires, capitalized terms in this announcement shall have the same meanings as defined in the Announcements.

UPDATE ON THE FINDINGS OF THE INDEPENDENT FORENSIC SPECIALIST

As disclosed in the Company's announcement dated 3 November 2015, the Investigation Committee had resolved to engage an independent forensic specialist to conduct a forensic review on the incidents arising from the Financing Transactions (the "**Forensic Review**").

The Company wishes to update its shareholders and the public that the Investigation Committee engaged PricewaterhouseCoopers Management Consulting (Shanghai) Limited (the "**Independent Forensic Specialist**") in November 2015 to conduct the Forensic Review. The Independent Forensic Specialist completed the Forensic Review and issued a final report (the "**Forensic Report**") to the Investigation Committee in late April 2016 setting out its findings during the Forensic Review.

During the Forensic Review, the Independent Forensic Specialist, among others, identified three sets of transactions involving guarantees, in addition to the Financing Transactions, provided by the Group for certain connected persons (as defined in the Listing Rules) of the Company and/or third parties outside the Group (the "**Additional Guarantees**"). The purpose of this announcement is to provide the shareholders of the Company with the following details of the Additional Guarantees, and the view of the Board on the financial impact of the Additional Guarantees on the Group.

(1) The first Additional Guarantee

Date: 27 May 2014

- Parties:*
- (1) Shenyang Huarui Shiji Asset Management Ltd. (瀋陽華銳世紀資產管理有限公司) (“**Shenyang Huarui**”) (as guarantor), a wholly-owned subsidiary of the Company
 - (2) Bank A (as lender), a licensed bank in China which is independent of and not connected with the Company and its connected persons

Background

During the period from April 2014 to June 2014, an arrangement was entered into whereby (i) Shanghai Jinmei Construction and Decoration Co., Ltd. (上海錦美建築裝潢有限公司) (“**Shanghai Jinmei**”) acquired from an asset management company an asset package for a consideration of RMB175 million and (ii) to assist Shanghai Jinmei with the cash flow for the acquisition of the asset package, Bank A lent RMB175 million to six other companies, namely Shanghai Qifang Enterprises Co., Ltd. (上海其方實業有限公司) (“**Shanghai Qifang**”), Shanghai Qinli Investment (Group) Co., Ltd. (上海勤勵投資(集團)有限公司) (“**Shanghai Qinli**”), Shanghai Yaoji Investment Management Co., Ltd. (上海耀吉投資管理有限公司) (“**Shanghai Yaoji**”), Shanghai Lake Malaren Investment Management Co., Ltd. (上海美蘭湖投資管理有限責任公司) (“**Malaren Investment Management**”), Shanghai Yuanyi Enterprises Co., Ltd. (上海元頤實業有限公司) (“**Shanghai Yuanyi**”) and Shanghai Golden Luodian International Travel Agency Co., Ltd. (上海金羅店國際旅行社有限公司) (“**SGLI Travel Agency**”). As part of the arrangement, Shanghai Jinmei undertook to the six companies that the proceeds from subsequent disposal of the asset package will be used to repay the RMB175 million loan provided by Bank A to the six companies. Bank A also provided a letter of undertaking in favour of Shanghai Jinmei to indemnify and hold harmless Shanghai Jinmei for any losses arising from litigation relating to or disposal of the asset package.

As stated in the Forensic Report, the Independent Forensic Specialist was told by Bank A that Mr. Shi had de facto control over Shanghai Jinmei and the other six companies (despite Mr. Shi not being a direct shareholder or a director of any of such companies). However, the Independent Forensic Specialist was unable to contact Mr. Shi to confirm if, and neither the Board upon internal enquiries is aware of any evidence suggesting that, such companies were indeed under Mr. Shi’s control at the relevant time. On the other hand, Malaren Investment Management, Shanghai Yuanyi and SGLI Travel Agency were subsidiaries of CNTD at the relevant time and formed part of the disposal assets being the subject matter of the Disposal Agreement signed between CNTD and SREI, and thus were connected persons related to Mr. Shi at the relevant time.

Secured interest

To secure the repayment obligations of the six companies, namely Shanghai Qifang, Shanghai Qinli, Shanghai Yaoji, Malaren Investment Management, Shanghai Yuanyi and SGLI Travel Agency, in respect of the RMB175 million loan provided by Bank A, a property pledge (the “**Property Pledge**”) was provided by Shenyang Huarui in favour of Bank A pledging a commercial property owned by Shenyang Huarui with a total gross floor area of approximately 245,252 square meters located at No. 118, Harbin Road, Shenhe District, Shenyang.

Implications under the Listing Rules

After reviewing the relevant documents and consulting the legal advisers of the Company, the Board considers that the first Additional Guarantee is regarded as provision of financial assistance to connected persons of the Company (namely, Malaren Investment Management, Shanghai Yuanyi and SGLI Travel Agency) and constituted a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules (which were in force at the relevant time) as the applicable percentage ratio(s) exceeded 5%.

In addition, the Board considers that the first Additional Guarantee was not entered into in the Group’s ordinary and usual course of business and also constituted a provision of financial assistance to apparently independent third parties (namely, Shanghai Qifang, Shanghai Qinli and Shanghai Yaoji). As the applicable percentage ratio(s) exceeded 5%, the first Additional Guarantee also constituted at least a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Accordingly, the Board considers that the first Additional Guarantee should have been subject to announcement, circular and independent shareholders’ approval requirements under the Listing Rules.

Financial impact of the first Additional Guarantee on the Group

A pledge of a private property owned by Madam Si Xiao Dong (spouse of Mr. Shi) and Mr. Shi Janson Bing (son of Mr. Shi, an executive Director of the Company) was provided by Madam Si Xiao Dong and Mr. Shi Janson Bing in favour of Bank A on 1 March 2016 to replace the Property Pledge. The Property Pledge was released accordingly on 30 March 2016 and thereafter the Group ceased to have any contingent liabilities in relation to the first Additional Guarantee. As such, the Board considers that the first Additional Guarantee no longer has any financial impact on the Group.

(2) **The second Additional Guarantee**

Background

E-Jia Ying (E 家盈) was a crowd-funded financial product launched in October 2014 for the purpose of raising funds for a real estate project of the Group, in relation to which Shanghai Jinmei, 99 Win Financial Information Services (Shanghai) Co., Ltd. (前湧金融信息服務 (上海) 有限公司) (“**99 Win**”) and public investors on 99 Win’s website entered into a tripartite agreement (the “**Tripartite Agreement**”), pursuant to which Shanghai Jinmei shall transferred to the public investors on 99 Win’s website its rights to earnings of the underlying real estate project of the Group in an amount of up to RMB300 million.

As mentioned above, as stated in the Forensic Report the Independent Forensic Specialist was told by Bank A that Mr. Shi had de facto control over Shanghai Jinmei at the relevant time (despite Mr. Shi not being a direct shareholder or a director of Shanghai Jinmei). However, the Independent Forensic Specialist was unable to contact Mr. Shi to confirm if, and neither the Board upon internal enquiries is aware of any evidence suggesting that, Shanghai Jinmei was indeed under Mr. Shi’s control at the relevant time. 99 Win is independent of and not connected with the Company and its connected persons.

All funds raised from E-Jia Ying (being a total amount of RMB143,633,800) had been transferred to Shanghai Xiangzhi Investment Ltd. (上海香置投資有限公司), a subsidiary of the Company.

Undertaking by the Company

Supplementary to the Tripartite Agreement, the Company provided a letter of undertaking dated 16 October 2014 guaranteeing any financial liabilities of Shanghai Jinmei arising from its obligation to compensate the public investors on 99 Win’s website for any difference between expected and actual returns.

Implications under the Listing Rules

The Board considers that the second Additional Guarantee was not entered into in the Group’s ordinary and usual course of business and as the applicable percentage ratio(s) exceeded 5%, it constituted at least a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the Board considers that the second Additional Guarantee should have been subject to at least announcement requirement under the Listing Rules.

Financial impact of the second Additional Guarantee on the Group

E-Jia Ying had matured and terminated in October 2015 and accordingly the investment funds had all been returned to the public investors, and thereafter the Company had ceased to have any contingent liabilities in relation to E-Jia Ying. As such, the Board considers that the second Additional Guarantee no longer has any financial impact on the Group.

(3) The third Additional Guarantee

Background

Beiban Hegu Urban Development Fund (北阪河谷城市發展基金) (the “**Development Fund**”) is a limited partnership incorporated in June 2013 by Black Eagle and a fund management company, Zhongrong International Trust Co., Ltd. (中融國際信托有限公司) (“**Zhongrong International**”) for the purpose of raising funds for certain real estate projects of the Group. Black Eagle became a wholly-owned subsidiary of SREI on 11 September 2015 and thereby became a connected person of the Company. Zhongrong International is independent of and not connected with the Company and its connected persons.

The Development Fund comprised three phases. Phase I was not implemented due to expected lack of profitability of the related underlying project. Phase II and Phase III were implemented in November 2013 and December 2014, respectively, and currently remain active. The subscribed capital contributions of Black Eagle (as a partner in the Development Fund) for Phase II and Phase III are RMB292 million and RMB202.53 million, respectively. However, such subscribed capital contributions would need to be paid up by Black Eagle only upon occurrence of certain circumstances as specified in the relevant agreements. As at the date of this announcement, Black Eagle has not been required to pay up its subscribed capital contributions for either Phase II or Phase III of the Development Fund.

Phase II of the Development Fund raised RMB1,464.5 million, which had all been transferred to Shanghai Jinxin Real Estate Co., Ltd. (上海金心置業有限公司), a subsidiary of the Company. Phase III of the Development Fund raised 800 million, which had all been transferred to Liaoning Gao Xiao Support Group Property Development Co., Ltd. (遼寧高校後勤集團房地產開發有限公司) (“**Liaoning Gao Xiao**”), a subsidiary of the Company. Such funds raised from the Development Fund and paid to certain subsidiaries of the Company were characterized as borrowings of the Group according to the applicable accounting rules and had been reflected in the audited financial statements of the Group accordingly. Please refer to the paragraph headed “Financial impact of the third Additional Guarantee on the Group” below for further details.

Guarantees provided by the Company and its subsidiaries

During the period from November 2013 to December 2014, guarantees were provided by the Company and certain of its subsidiaries, namely Shanghai Oasis Garden Real Estate Co., Ltd. (上海綠洲花園置業有限公司) (“**Shanghai Oasis Garden**”), Shenyang Lvyi Hotel Management Ltd. (瀋陽綠怡酒店管理有限公司) (“**Shenyang Lvyi**”), Liaoning Gao Xiao and Konmen Investment Ltd. (康明投資有限公司) (“**Konmen Investment**”), in favour of Shanghai Beiban Hegu Investment Centre (上海北阪河谷投資中心) (the “**Investment Centre**”), a subsidiary of the Development Fund, and/or Zhongrong International for the obligations of Black Eagle (which would materialise only upon occurrence of certain circumstances) to (i) pay up its subscribed capital contributions for Phase II and Phase III of the Development Fund and/or (ii) repurchase Zhongrong International’s respective share in Phase II and Phase III of the Development Fund.

Such guarantees currently remain effective as Phase II and Phase III of the Development Fund are still subsisting. Details of the guarantees are set out below.

Guarantor(s)	Creditor	Estimated amount of guarantee	Content of guarantee
<i>Phase II (implemented in November 2013)</i>			
Shanghai Oasis Garden	The Investment Centre	RMB292 million	A guarantee by Shanghai Oasis Garden to secure the obligations of Black Eagle to pay up its subscribed capital contribution for Phase II of the Development Fund
The Company			An undertaking by the Company to compensate for any failure by the relevant debtors/guarantors to perform their obligations
Shanghai Oasis Garden	Zhongrong International	RMB1,598.7 to 1,620.6 million	A guarantee by Shanghai Oasis Garden to secure the payment obligations of Black Eagle in case it is required to repurchase Zhongrong International's share in Phase II of the Development Fund
The Company			An undertaking by the Company to compensate for any failure by the relevant debtors/guarantors to perform their obligations
<i>Phase III (implemented in December 2014)</i>			
The Company	The Investment Centre	RMB202.53 million	If Black Eagle fails to fulfill its obligations to pay up its subscribed capital contribution for Phase III of the Development Fund, Zhongrong International has the right to require the Company to designate another party to pay up the subscribed capital contribution

The Company, Shenyang Lvyi, Liaoning Gao Xiao, and Konmen Investment	Zhongrong International	RMB800 million (plus the fees for maintaining the right of repurchase)	Guarantees in various forms (including irrevocable joint liability guarantee, share charge, pledge of land and undertaking for compensation) provided by the Company, Shenyang Lvyi, Liaoning Gao Xiao and Konmen Investment for the obligations of Black Eagle to repurchase Zhongrong International's share in Phase III of the Development Fund
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Implications under the Listing Rules

After reviewing the relevant documents and consulting the legal advisers of the Company, the Board considers that the third Additional Guarantee constituted financial assistance provided to an independent third party by the Company at the relevant time. As the applicable percentage ratio(s) exceeded 25%, it constituted at least a major transaction of the Company under Chapter 14 of the Listing Rules, and accordingly should have been subject to announcement, circular and shareholders' approval requirements under the Listing Rules.

In addition, the third Additional Guarantee became a continuing connected transaction of the Company under Chapter 14A of the Listing Rules when Black Eagle became a wholly-owned subsidiary of SREI and hence a connected person of the Company on 11 September 2015, and accordingly should have been subject to the disclosure requirements under Rule 14A.60(1) of the Listing Rules.

Financial impact of the third Additional Guarantee on the Group

As mentioned above, the funds which were raised from Phase II and Phase III of the Development Fund and paid to subsidiaries of the Company were characterized as borrowings of the Group according to the applicable accounting rules. In this regard, the Board, upon internal enquiries, has confirmed that (i) in the audited financial statements of the Group for the financial year ended 31 December 2014, an amount of RMB1,421,702,644 had been categorized and booked under "Other long-term borrowings, current – secured" and an amount of RMB800,000,000 had been categorized and booked under "Other short-term borrowings – secured"; and (ii) in the audited financial statements of the Group for the financial year ended 31 December 2015, an amount of RMB1,415,894,447 had been categorized and booked under "Other long-term borrowings, current – secured" and an amount of RMB800,000,000 had been categorized and booked under "Other short-term borrowings – secured", and such amounts have reflected the Group's contingent liabilities under the guarantees provided by the Company and its

subsidiaries in favour of Zhongrong International securing the obligations of Black Eagle to repurchase Zhongrong International's share in Phase II and Phase III of the Development Fund.

As such, the Board considers that the Company's contingent liabilities in respect of the third Additional Guarantee had been largely reflected in the audited financial statements of the Group for the year ended 31 December 2014 and 31 December 2015 respectively. In addition, upon further enquiries with Black Eagle, Zhongrong International and other relevant parties, the Board is not aware of any circumstances (including without limitation any further fund raising activities to be conducted by the Development Fund for the benefit of the Group or otherwise) which have triggered the obligations of Black Eagle to pay up its subscribed capital contributions for or to repurchase Zhongrong International's share in Phase II or Phase III of the Development Fund.

In view of the above, the Board considers that the third Additional Guarantee has not posed any additional material adverse impact on the financial position of the Group.

ACTIONS TAKEN AND FURTHER ACTIONS

Despite the fact that the Board does not consider the third Additional Guarantee to be posing any additional material adverse impact on the financial position of the Group, the Board intends to replace the funds raised from the Development Fund by internal resources and/or other financings and thereby release the Group from its contingent liabilities thereunder. The Company has already engaged and will continue to engage actively in negotiations with Zhongrong International, the Investment Centre and other relevant parties in this regard. In this connection, the Group has already returned approximately RMB1.5 billion to the Investment Centre in respect of Phase II of the Development Fund as at 22 April 2016, and will continue to push ahead the release of the third Additional Guarantee. The Company will update its shareholders and the public by way of announcement(s) if and when there is any significant development on this matter.

With the recent substantial changes in the composition of the Board, the incumbent Directors have put great emphasis on the reinforcement and implementation of the internal control system of the Group. Subsequent to the issuance of the Forensic Report by the Independent Forensic Specialist, the Investigation Committee will appoint a qualified internal control adviser to carry out a review on the current internal control system of the Group and to make recommendations to the Company. The Company will issue further announcement(s) in relation thereto as and when appropriate.

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

By Order of the Board
SRE Group Limited
He Binwu
Chairman

Hong Kong, 11 May 2016

As at the date of this announcement, the Board comprises seven executive Directors, namely Mr. He Binwu, Mr. Wang Zi Xiong, Mr. Peng Xinkuang, Mr. Shi Janson Bing, Mr. Chen Chao, Mr. Zhu Qiang and Mr. Zhao Xiaodong; and four independent non-executive Directors, namely Mr. Zhuo Fumin, Mr. Chan, Charles Sheung Wai, Mr. Guoping and Mr. Ma Lishan.

**For identification purpose only*