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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2016
Revenue (HK$'000)	**280,580**
Net profit attributable to owners of the Company (HK$'000)	**106,766**
Basic profit per share (HK cents)	**0.52**
Dividend per share – Interim (HK cents)	**–**

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of SRE Group Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2016 (the "Period under Review") together with comparative figures for the previous corresponding period in 2015. The unaudited interim financial statements for the six months ended 30 June 2016 have been reviewed by the Company's Audit Committee.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

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

		For the six months ended 30 June	
		2016	2015
	Notes	**Unaudited**	Unaudited
Continuing operations			
Revenue	*3*	**280,580**	437,578
Cost of sales		**(314,458)**	(376,295)
Gross (loss)/profit		**(33,878)**	61,283
Gain from disposal of subsidiaries		**804,987**	–
Other (losses)/gains – net		**(18,389)**	5,654
Selling and marketing expenses		**(46,221)**	(108,285)
Administrative expenses		**(209,985)**	(88,254)
Operating profit/(loss)		**496,514**	(129,602)
Finance income		**15,330**	27,338
Finance costs		**(202,675)**	(178,965)
Finance costs – net		**(187,345)**	(151,627)
Share of results of associates		**(10,089)**	88
Share of results of joint ventures		**(48)**	–
Profit/(loss) before tax		**299,032**	(281,141)
Income tax (expense)/credit	*4*	**(204,781)**	4,941
Profit/(loss) for the period from continuing operations		**94,251**	(276,200)
Discontinued operation			
Loss for the period from discontinued operation		**(19,422)**	(42,794)
Profit/(loss) for the period		**74,829**	(318,994)

	Notes	For the six months ended 30 June **2016** **Unaudited**	2015 Unaudited
Other comprehensive income			
Item that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements into presentation currency		**(156,603)**	2,885
Other comprehensive income for the period, net of tax		**(156,603)**	2,885
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(81,774)**	(316,109)
Profit/(loss) attributable to:			
Owners of the Company		**106,766**	(261,646)
Non-controlling interests		**(31,937)**	(57,348)
		74,829	(318,994)
Profit/(loss) attributable to owners of the Company:			
Continuing operations		**117,642**	(237,681)
Discontinued operation		**(10,876)**	(23,965)
		106,766	(261,646)
Total comprehensive income attributable to:			
Owners of the Company		**(45,778)**	(258,839)
Non-controlling interests		**(35,996)**	(57,270)
		(81,774)	(316,109)
Total comprehensive income attributable to owners of the Company:			
Continuing operations		**(35,030)**	(236,017)
Discontinued operation		**(10,748)**	(22,822)
		(45,778)	(258,839)

	Notes	For the six months ended 30 June 2016 Unaudited	2015 Unaudited
Earnings/(loss) per share from continuing and discontinued operation attributable to ordinary equity holders of the Company	*5*		
– Basic			
From continuing operations		**HK$0.57 cents**	(HK$4.20 cents)
From discontinued operation		**(HK$0.05 cents)**	(HK$0.42 cents)
		HK$0.52 cents	(HK$4.62 cents)
– Diluted			
From continuing operations		**HK$0.57 cents**	(HK$4.20 cents)
From discontinued operation		**(HK$0.05 cents)**	(HK$0.42 cents)
		HK$0.52 cents	(HK$4.62 cents)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 30 June 2016

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

	Notes	**30 June 2016 Unaudited**	31 December 2015 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**28,160**	468,829
Investment properties		**4,120,884**	5,725,705
Prepaid land lease payments		**2,801**	50,842
Goodwill		**222,882**	227,370
Investments in associates		**571,947**	55,069
Investments in joint ventures		**79,048**	–
Deferred tax assets		**308,530**	310,284
Available-for-sale investments		**11,700**	11,936
Other non-current assets		**1,230,697**	–
		6,576,649	6,850,035
Current assets			
Prepaid land lease payments		**4,819,367**	4,697,787
Properties held or under development for sale		**5,539,144**	5,192,599
Inventories		**2,244**	17,655
Prepayments and other current assets		**2,486,309**	2,623,121
Other receivables		**2,298,474**	360,978
Trade receivables	*7*	**67,569**	69,640
Notes receivable		–	645
Prepaid income tax		**201,263**	186,114
Available-for-sale investment		**2,340**	1,790
Loans and receivables		**224,180**	255,908
Cash and bank balances		**2,500,863**	3,049,760
		18,141,753	16,455,997
Assets classified as held for sale		–	11,493,976
		18,141,753	27,949,973
Total assets		**24,718,402**	34,800,008

	Notes	30 June 2016 Unaudited	31 December 2015 Audited
EQUITY AND LIABILITIES			
EQUITY			
Issued capital and premium		**7,488,108**	7,488,108
Other reserves		**1,019,402**	1,171,946
Accumulated losses		**(910,788)**	(1,017,554)
Equity attributable to owners of the Company		**7,596,722**	7,642,500
Non-controlling interests		**215,540**	397,161
Total equity		**7,812,262**	8,039,661
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**594,429**	2,496,551
Deferred tax liabilities		**1,384,626**	1,647,654
		1,979,055	4,144,205
Current liabilities			
Interest-bearing bank and other borrowings		**8,069,659**	8,422,193
Advances received from the pre-sale of properties under development		**3,454,623**	2,361,360
Trade payables	*8*	**787,287**	814,468
Other payables and accruals		**1,323,172**	956,431
Current income tax liabilities		**1,292,344**	1,231,397
		14,927,085	13,785,849
Liabilities directly associated with the assets classified as held for sale		**–**	8,830,293
		14,927,085	22,616,142
Total liabilities		**16,906,140**	26,760,347
Total equity and liabilities		**24,718,402**	34,800,008

Notes to the Condensed Consolidated Interim Financial Information

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

1. Basis of preparation and accounting policies

1.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2016 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 of and for the year ended 31 December 2015, which have been prepared in accordance with HKFRS.

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 2015, except for the adoption of new and revised standard, amendments and improvements as of 1 January 2016, as described below:

HKFRS 14	Regulatory Deferral Accounts
Amendment to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendment to HKAS 27	Equity method in separate financial statements
Annual improvements 2014	Affecting the following 4 standards: HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, HKFRS 7 “Financial Instruments: Disclosures”, HKAS 19 “Employee Benefits” and HKAS 34 “Interim Financial Reporting”
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception
Amendments to HKAS 1	Disclosure initiative

Adoption of these new HKFRS did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

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 the 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 2016 (unaudited)					
	Continuing				Discontinued operation	
	Property development	Property leasing	Corporate and other operations	Subtotal	Hotel operations	Total
Segment revenue						
Sales to external customers	**149,720**	**39,504**	**91,356**	**280,580**	**46,081**	**326,661**
Intersegment sales	**–**	**–**	**8,947**	**8,947**	**–**	**8,947**
	149,720	**39,504**	**100,303**	**289,527**	**46,081**	**335,608**
Reconciliation:						
Elimination of intersegment sales				**(8,947)**	**–**	**(8,947)**
Revenue				**280,580**	**46,081**	**326,661**
Segment (loss)/profit	**(269,416)**	**21,217**	**744,713**	**496,514**	**1,864**	**498,378**
Finance income				**15,330**	**–**	
Finance costs				**(202,675)**	**(21,286)**	
Finance costs – net				**(187,345)**	**(21,286)**	
Share of results of associates				**(10,089)**	**–**	
Share of results of joint ventures				**(48)**	**–**	
Profit/(loss) before tax				**299,032**	**(19,422)**	

Six months ended 30 June 2015 (unaudited)

	Continuing				Discontinued operation	
	Property development	Property leasing	Corporate and other operations	Subtotal	Hotel operations	Total
Segment revenue						
Sales to external customers	261,767	60,879	114,932	437,578	97,990	535,568
Intersegment sales	–	–	2,438	2,438	–	2,438
	261,767	60,879	117,370	440,016	97,990	538,006
Reconciliation:						
Elimination of intersegment sales				(2,438)	–	(2,438)
Revenue				437,578	97,990	535,568
Segment (loss)/profit	(154,530)	34,244	(9,316)	(129,602)	11,060	(118,542)
Finance income				27,338	56	
Finance costs				(178,965)	(53,910)	
Finance costs – net				(151,627)	(53,854)	
Share of profits of associates				88	–	
Loss before tax				(281,141)	(42,794)	

3. Revenue

An analysis of revenue during the period is as follows:

	(unaudited) For the six months ended 30 June	
	2016	2015
Sale of development properties	**159,950**	277,160
Revenue from property leasing	**41,582**	65,692
Property management income	**81,527**	100,441
Revenue from construction of infrastructure for an intelligent network	**5,533**	7,233
Other revenue	**8,792**	14,184
	297,384	464,710
Less: Business tax and surcharges *(a)*	**(16,804)**	(27,132)
Total revenue	**280,580**	437,578

(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. Income Tax

	(unaudited) For the six months ended 30 June	
	2016	2015
Current taxation		
– Mainland China income tax *(a)*	**173,181**	4,908
– Mainland China LAT *(c)*	**1,925**	6,057
	175,106	10,965
Deferred taxation		
– Mainland China income tax	**37,055**	(8,377)
– Mainland China LAT	**(1,178)**	(623)
– Mainland China withholding tax *(d)*	**(6,202)**	(6,906)
	29,675	(15,906)
Total tax charge/(credit) for the period	**204,781**	(4,941)

(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 2% to 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/(loss) per Share attributable to ordinary equity holders of the Company

The calculation of basic earnings/(loss) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 20,564,713 thousand (2015: 5,664,713 thousand) in issue during the period.

As the Group had no potentially dilutive ordinary shares in issue for the periods ended 30 June 2016 and 2015, the diluted earnings/(loss) per share are the same as the basic earnings/(loss) per share.

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

	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Earnings/(loss)		
Profit/(loss) from continuing operations attributable to owners of the Company	**117,642**	(237,681)
Loss from discontinued operation attributable to owners of the Company	**(10,876)**	(23,965)
	106,766	(261,646)

	Number of shares	
	For the six months ended 30 June 2016 ***(Thousand shares)***	For the six months ended 30 June 2015 *(Thousand shares)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings/(loss) per share calculations	**20,564,713**	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 information.

6. Dividend

On 15 August 2016, the Board resolved not to declare an interim dividend for the six months ended 30 June 2016 (2015: Nil).

7. Trade Receivables

	30 June 2016 Unaudited	31 December 2015 Audited
Trade receivables	**76,932**	79,192
Less: Provision for impairment	**(9,363)**	(9,552)
	67,569	69,640

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

	30 June 2016 Unaudited	31 December 2015 Audited
Within 6 months	**41,721**	48,548
6 months – 1 year	**1,733**	3,202
1 – 2 years	**17,254**	19,108
Over 2 years	**16,224**	8,334
	76,932	79,192

Trade receivables are non-interest-generating. The credit terms offered by the Group are normally less than six 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 2016 Unaudited	31 December 2015 Audited
Trade payables	**787,287**	814,468

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

	30 June 2016 Unaudited	31 December 2015 Audited
Within 1 year	**298,321**	243,293
1 – 2 years	**116,406**	177,324
Over 2 years	**372,560**	393,851
	787,287	814,468

Trade payables are mainly payables arising from property construction and land development. 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$281 million (first half of 2015: HK$438 million), which represents a decrease by approximately 36% compared with that of the corresponding period of last year. Profit attributable to owners of the Company for the six months ended 30 June 2016 amounted to approximately HK$107 million while loss attributable to owners of the Company for the corresponding period of last year was approximately HK$262 million. The turnaround was mainly attributable to a continuous improvement in the overall operating efficiency of the Group and reduction of financing costs.

The Board resolved not to declare an interim dividend for the six months ended 30 June 2016 (2015: Nil).

Liquidity and Financial Resources

As at 30 June 2016, cash and bank balances amounted to approximately HK$2,501 million (31 December 2015: approximately HK$3,050 million). Working capital (net current assets) of the Group as at 30 June 2016 amounted to approximately HK$3,215 million (31 December 2015: approximately HK$5,334 million), representing a decrease by approximately 40% as compared with the previous year. Current ratio was at 1.22x (31 December 2015: 1.24x).

As at 30 June 2016, the Group's gearing ratio was 44% (31 December 2015: 49%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance) over total capital (total equity and net borrowings).

Charges on Assets and Contingent Liabilities

As at 30 June 2016, the Group's bank and other borrowings of approximately HK$3,406 million (31 December 2015: approximately HK$10,646 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 cash flows from pre-sale of properties.

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, 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 when the bank grants the relevant mortgage loans and end when the purchasers pledge related properties certificates as security to the bank offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totaling RMB214 million (equivalent to approximately HK$250 million) (31 December 2015: RMB185 million, equivalent to approximately HK$234 million) and these contracts were still effective as at the close of business on 30 June 2016.

The Group did not incur any material losses during the period 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 as the principal of each of the mortgage loan is normally below 70% of sales price of the respective property at date of the sales agreement, and therefore no provision has been made in connection with the guarantees.

BUSINESS REVIEW

In the first half of 2016, the macro economy recovered from the bottom, the policy of reducing property inventory continued to gain traction, the transactions in real estate recovered steadily, while the first tier cities were leading in the transaction volume and price, the home prices in second-tier and third-tier cities were stabilized with sale volumes increased. During the first half year, the Group strengthened its sales efforts for its projects under construction and achieved a steady growth in contract sales; and made efforts to improve operation for investment properties including Oasis Central Ring Centre and Shenyang Rich Gate with results started stabilizing; while improved results in sales properties and investment properties, the Group optimised properly its development strategy, parts of assets was capitalized early for gain and sold at high price to ensure its income and cash flow; at the same time, the Group expanded actively new business, and the expansion in first tier cities and overseas core cities was implemented substantially.

Real Estate Development

Sales Progress

In the first half of 2016, major projects put up for sale of the Group together with its joint ventures and associates included Shanghai Albany Oasis Garden, Shanghai Huating Project, Shenyang Albany Oasis Garden, Jiaxing Project and Jiang Nan Rich Gate Wuxi. From January to June 2016, the Group together with its joint ventures and associates achieved contract sales of approximately RMB5,077 million for a total floor area of 98,602 m^2, representing an increase of 65.2% as compared with the same period last year. The average selling price was RMB 51,490 per m^2. which, inter alia, included:

Shanghai Albany Oasis Garden

Shanghai Albany Oasis Garden is situated on Shanghai Inner Ring Road and is a high-end residential project. A total area of 55,728 m^2 was sold in the first half of 2016 and the total contract sum amounted to RMB4,211 million (averaging RMB75,563 per m^2). The Group holds 40% equity interest of Shanghai Albany Oasis Garden.

Shanghai Huating Project

Shanghai Huating Project is situated on Eastern Xie Tu Road of Huangpu District in Shanghai and is a high-end residential project. A total area of 5,558 m^2 were sold in the first half of 2016, and the total contract sum amounted to RMB496 million (averaging RMB89,183 per m^2). The Group holds 50.36% equity interest of Shanghai Huating Project.

Shenyang Albany Oasis Garden

Shengyang Albany Oasis Garden is situated on South Heping Road of Heping District in Shenyang City, Liaoning Province, and is a residential community with an excellent location geographically and with well-developed transportation networks. A total area of 31,578 m^2 were sold in the first half of 2016 for RMB264 million (averaging RMB8,373 per m^2). The Group holds 98.95% equity interest of Shengyang Albany Oasis Garden.

Jiaxing Project

Jiaxing Project is situated in Nanhu District of Jiaxing City in Zhejiang Province. In keeping with the Group's focus on high-end products-the project forged a high quality, exquisite and luxurious residential community. A total area of 5,098 m^2 were sold in the first half of 2016 for RMB41.39 million (averaging RMB8,119 per m^2). The Group holds 98.75% equity interest of Jiaxing Project.

Jiang Nan Rich Gate Wuxi

Jiang Nan Rich Gate Wuxi is situated in the northeastern part of the Wuxi New Town, and is an exquisite townhouse project. A total area of 1,172 m^2 were sold in the first half of 2016 for RMB10.21 million (averaging RMB8,713 per m^2). The Group holds 98.75% equity interest of Jiang Nan Rich Gate Wuxi.

Land Bank

On 30 June 2016, the Group owns a land bank with an estimated gross floor area of approximately 2.23 million m^2 in Shanghai, Shenyang, Jiaxing, Wuxi and Dalian. The Company focuses on first tier cities and cities with development potential and commits to discover assets which are underestimated or with potential. During the Period under Review, the resolution in relation to the acquisition of assets from New Town Development Company Limited and SREI Holding Limited by the Company has passed by the shareholders at the special general meeting of the Company. For details, please refer to the announcement dated 20 April 2016 and 6 July 2016, and circular dated 16 June 2016. Pursuant to which, the Company will acquire residential and commercial assets situated in Shanghai and Chengdu at a consideration of RMB1,315 million. It is expected that the land bank of the Group will increase approximately 380,000 m^2 upon the completion of such acquisition. In addition, the Group proactively expanded the overseas real estate projects of core cities. Recently, the Group invested in a project in Sydney, Australia which is planned to be transformed into a high-end residential and commercial complex of hotels, shops and residential with an aim to achieve 15% ~ 20% annual return rate, and was a step forward to the expansion of overseas business.

Progress of Construction

Adhering to development plans and construction schedules outlined at the beginning of 2016, the Group and its subsidiaries have been carrying out construction works in an orderly and standardized manner, while making every effort to improve the construction quality and ensuring good quality projects. Major projects under construction include:

Shanghai Huating Project

As of June 2016, block 1 to 5 and block 7 of Shanghai Huating Project had been completed basically, the internal and external cleaning had begun, meeting the delivery standard.

Shenyang Albany Oasis Garden

The total gross floor area of Phase II is 180,000 m^2, and it is divided into section A and section B. As at June 2016, the work of Section A of Phase II was completed basically, meeting the delivery standard; the internal and external fitting-out of Block 7 in Section B of Phase II had begun. The centralized commercial mechanical and electrical installation for Section A of Phase III has been in progress and was about 50% completed.

Progress of Relocation

Shanghai Rich Gate I

As at the end of June 2016, 891 households and enterprises with total area of 7,000 m^2 were relocated for Shanghai Rich Gate I; 1,003 households were to be relocated, as at 28 April 2016, the consent rate for the first round of consult on house expropriation was 94.45%; the syndicated loan facilities for relocation were RMB5.0 billion, the formation of syndicated consortium had been completed successfully.

Shenyang Albany Oasis Garden

As at the end of June 2016, Shenyang Albany Oasis Garden had signed relocation contracts with 1,399 households and 13 enterprises (including schools), with negotiations for 101 households and 12 enterprises and schools still in progress. The relocation was about 93% completed for households and 52% completed for enterprises and schools respectively.

Commercial Property Operation

During the first half of 2016, 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 brand advantages and management capabilities, and strived to improve profitability with the benefits of the experiences earned, including:

Oasis Central Ring Centre

As a landmark of the Shanghai Central Ring business district, the Oasis Central Ring Centre, with the high qualities of Grade 5A office buildings and being well equipped with all sorts of facilities, it has attracted an increasing number of companies to move in.

During the first half of 2016, Oasis 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. As at 30 June 2016, the occupancy rate of Oasis Central Ring Centre reached 86% with a total rental income of RMB22.25 million, RMB19.76 million of which were lease income from commercial area and office spaces while parking fee income totaled RMB2.49 million.

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall offers a wide range of varieties, such as shopping, fine food, leisure, entertainment, culture. As of 30 June 2016, a total area of 65,884 m^2 were leased, accounting for 59% of the total rentable area, and rental income totaled RMB17.17 million.

New businesses

Yunnan Mingzhen Hospital Project

In March 2016, a contract was signed for Yunnan Mingzhen Hospital project, mainly operating Kunming Jianxing Tumour Hospital, the Group holds 45% equity interest in the project, currently, the capital increase was completed and it has put into normal operation.

Darun Yunshang Project

In March 2016, a contract was signed for Darun Yunshang project to enter into real estate related internet and financial sector. Of which, the Group holds 12% equity interest in Darun Technology Company (大潤科技公司), currently, the capital increase was completed. The Group holds 80% equity interest in a factoring company, currently, the qualification was obtained and the operation preparation work is moving forward steadily.

BUSINESS OUTLOOK

In 2016, under the main backdrop of the Central Government's policy of supply front reform, the competent authorities promoted actively to reduce the real estate inventory, creating an easy policy and market environment; a series of policies in relation to the relaxation for provident funds, financial subsidies and others were also launched by regional governments; under the cumulative effect of these policies from different levels of authorities, the real estate market was recovered substantially and show a overheat trend in first tier cities. In the second half of the year, under the expectation that the growth rate of the economy will bottom out, the monetary conditions will remain stable and moderate ease. Such a sound macro-environment is beneficial to maintain the stability of the real estate market.

The Group together with its joint ventures and associates will grasp the favourable opportunities of the market recovery, continue to allow full play to the advantage of the quality brand name of Shanghai Huating Project, strengthen its sales efforts and is confident in achieving the contract sales target of RMB7.5 billion for the year. At the same time, the Group will enhance its cost control and process optimization by ways of management optimization and internet manner to facilitate the delicacy operation and pursue healthy profit, cash flows and sales size. In addition, the Group shall continue to optimize its financial structure and had successfully been granted a credit line of RMB10 billion from Industrial and commercial Bank of China.

As China's urbanization process steps into a stable stage, the real estate sector has entered its silver age, the regions and enterprises are differentiated gradually, the transformation and upgrading have become consensus in the industry. The Group will speed up the adaptation of new environment, grasp the opportunity of the industry transformation, reduce gradually the proportion of previous heavy assets operation model, increase the investment business, by the manner of "financing, investment, management and withdrawal", speed up the process of investment exiting and gain receiving to improve the turnover rate and then operate at a panallel made of a combination of right and heavy assets. In new growth, the Group will develop actively new projects, focus on first tier cities, take advantage of its unique investment perspective to explore undervalued or potential assets through diversified channels including acquisition or cooperation; the Group will put the strategy of "Going Out" into practice, seek overseas quality assets, make a layout in influential overseas key cities such as Sydney, London and San Francisco, strive to seek a stable income under risk and disperse risk of currency devaluation; we pay attention closely to the relevant policies and measures issued regarding to "One Belt, One Road" to seek quality projects and strive for a share brought by "One Belt, One Road" as soon as possible. At the same time, the Group will try prudently the limited diversification, cultivate new growth industry, including medical, pension real estate and real estate related internet, fund and financial business.

EMPLOYEES

As at 30 June 2016, the Group had retained 1,302 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$96 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 LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2016.

MODEL 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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Specific enquiry has been made of all Directors, who have confirmed that they complied with the required standard set out in the Model Code throughout the six months ended 30 June 2016.

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 financial reporting matters. The Group's unaudited consolidated financial statements for the six months ended 30 June 2016 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2016, 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 as set out in Appendix 14 of the Listing Rules except for the following deviations:

Code Provision A.6.7

Pursuant to code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Guoping, an Independent Non-executive Director, did not attend the annual general meeting of the Company for the year 2016 due to other business engagements.

In addition, due to Mr. Yang Chao's retirement as an Independent Non-executive Director, the Company since 1 January 2016 temporarily failed to comply with Rule 3.10A of the Listing Rules, which requires that the independent non-executive directors of the Company must represent at least one-third of the board. Following the appointment of Mr. Ma Lishan as an Independent Non-executive Director on 31 March 2016, such non-compliance was rectified.

Pursuant to Rule 3.21 of the Listing Rules, every listed issuer must establish an audit committee comprising non-executive directors only. Mr. Wang Zi Xiong, a then Executive Director was appointed as a member of the Audit Committee on 4 December 2015 due to unintended administration arrangement and ceased to be a member thereof on 31 March 2016 with a view to fulfilling the requirements of the Listing Rules.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement of the Company is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.equitynet.com.hk/sre/). The interim report of the Company for 2016 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the above websites in due course.

By Order of the Board
SRE Group Limited
He Binwu
Chairman

Hong Kong, 15 August 2016

As at the date hereof, the Board comprises seven executive directors, namely Mr. He Binwu, Mr. Peng Xinkuang, Mr. Shi Janson Bing, Mr. Chen Chao, Mr. Zhu Qiang, Mr. Chen Donghui and Ms. Qin Wenying; 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*