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

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
DEEMED DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY
UNDER CAPITAL INJECTION AGREEMENT**

THE CAPITAL INJECTION AGREEMENT

On 15 May 2018 (after trading hours), the Investor (a connected person of the Company at the subsidiary level), Shanghai Yidong (an indirect wholly owned subsidiary of the Company), the Company and the Target Company (an indirect non-wholly owned subsidiary of the Company) entered into the Capital Injection Agreement, pursuant to which the Investor has agreed to contribute RMB150 million (for illustration purpose only, equivalent to approximately HK\$186,000,000 using the exchange rate of RMB1:HK\$1.24) to the registered capital of the Target Company.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Target Company is held as to approximately 57.14% by Shanghai Yidong and approximately 42.86% by the Investor. Upon completion of the Capital Injection, the equity interest held by Shanghai Yidong in the Target Company will be diluted from approximately 57.14% to 40%. Therefore, the Capital Injection contemplated under the Capital Injection Agreement constitutes a deemed disposal of the Group's equity interest in the Target Company under Rule 14.29 of the Listing Rules. The Target Company will remain as a non-wholly owned subsidiary of the Company and its financial results will continue to be consolidated into the financial statements of the Group.

Each of the grant of the Call Option (as defined below) and the Put Option (as defined below) is treated as a transaction by the Company pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules. As the exercise of the Call Option or the Put Option by the Investor is not at the discretion of Shanghai Yidong or the Company, the transaction will be classified on the grant of the Call Option and the Put Option (as the case may be) as if it has been exercised according to Rule 14.74 of the Listing Rules.

The Investor is a substantial shareholder of the Target Company, an indirect non-wholly owned subsidiary of the Company. Accordingly, the Investor is a connected person of the Company at the subsidiary level. Each of the Capital Injection, the grant of the Call Option and the grant of the Put Option constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rules 14.22 and 14A.81 of the Listing Rules, the Capital Injection is required to be aggregated with the First Capital Injection (as defined below) and the grant of the Call Option as they were all entered into within a 12-month period. As one or more of the applicable percentage ratios in respect of the Deemed Disposal (i.e. the Capital Injection), when aggregated with the First Capital Injection and the grant of the Call Option (with reference to the Maximum Call Option Interest (as defined below)), exceed(s) 5% but is/are less than 25%, the Deemed Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements.

Since (i) the Investor is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Capital Injection Agreement and the transactions contemplated thereunder; and (iii) the independent non-executive Directors have confirmed that the terms of the Capital Injection Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole (despite the Capital Injection not being in the ordinary and usual course of business of the Group), each of the Capital Injection (as aggregated with the First Capital Injection and the grant of the Call Option) and the grant of the Put Option is only subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

INTRODUCTION

On 15 May 2018 (after trading hours), the Investor (a connected person of the Company at the subsidiary level), Shanghai Yidong (an indirect wholly owned subsidiary of the Company), the Company and the Target Company (an indirect non-wholly owned subsidiary of the Company) entered into the Capital Injection Agreement, pursuant to which the Investor has agreed to contribute RMB150 million (for illustration purpose only, equivalent to approximately HK\$186,000,000 using the exchange rate of RMB1:HK\$1.24) to the registered capital of the Target Company.

THE CAPITAL INJECTION AGREEMENT

The principal terms of the Capital Injection Agreement are set out as follows:

Date

15 May 2018 (after trading hours)

Parties

- (i) Shangzhi Asset Management (Shanghai) Co., Ltd. (上置資產管理(上海)有限公司), as the Investor;
- (ii) Shanghai Yidong Investment Management Co., Ltd. (上海意動投資管理有限公司), as a shareholder holding approximately 57.14% equity interest in the Target Company as at the date of this announcement;
- (iii) the Company, as Shanghai Yidong's guarantor; and
- (iv) Shanghai Lake Malaren Hospital Investment Co., Ltd. (上海美蘭湖醫院投資有限公司), as the Target Company.

Capital Injection

As at the date of this announcement, the registered capital of the Target Company is RMB350 million, of which RMB200 million and RMB150 million is subscribed for and contributed by Shanghai Yidong and the Investor, respectively.

Pursuant to the Capital Injection Agreement, the Investor has agreed to further contribute RMB150 million (the “**Subscribed Capital**”) (for illustration purpose only, equivalent to approximately HK\$186,000,000 using the exchange rate of RMB1:HK\$1.24) to the registered capital of the Target Company. The first instalment of the Subscribed Capital shall be paid by the Investor to the Target Company within 60 days from the date of the Capital Injection Agreement.

The subscribed capital and percentage of equity interest in the Target Company of Shanghai Yidong and the Investor, respectively, before and after the Capital Injection are set out below:

	Before the Capital Injection		After the Capital Injection	
	Subscribed capital (RMB) (million)	% of equity interest in the Target Company %	Subscribed capital (RMB) (million)	% of equity interest in the Target Company %
Shanghai Yidong	200	57.14	200	40
The Investor	150	42.86	300	60
Total	350	100	500	100

Upon completion of the Capital Injection, (i) the registered capital of the Target Company will increase

from RMB350 million to RMB500 million; (ii) Shanghai Yidong's equity interest in the Target Company will decrease from 57.14% to 40%; and (iii) the Investor's equity interest in the Target Company will increase from 42.86% to 60%.

Investment period and restrictions on transfers or encumbrances

The investment period in respect of the Capital Injection (the "**Investment Period**") shall be no less than 12 months and no more than 36 months from the payment of the first Instalment of the First Capital Injection (as defined below) by the Investor to the Target Company.

During the Investment Period, save as provided under the Capital Injection Agreement, Shanghai Yidong or the Investor shall not transfer all or part of its equity interest in the Target Company to a third party, or create any encumbrances thereon, without the prior written consent of the other party.

Upon expiry of the Investment Period, the Investor may exit by way of, among others, disposal of its equity interest in the Target Company, in respect of which Shanghai Yidong shall have a right of first refusal.

Profit guarantee provided by Shanghai Yidong to the Investor

Shanghai Yidong has warranted and guaranteed to the Investor that the audited operating net profit of the Target Company shall not be less than (i) RMB6 million for the financial year ended 31 December 2018; (ii) RMB8 million for the financial year ended 31 December 2019; and (iii) RMB10 million for the financial year ended 31 December 2020 (the "**Guaranteed Amounts**").

The Guaranteed Amounts were determined by the parties to the Capital Injection Agreement after arm's length negotiations with reference to current operation status of the Hospital (as defined below), including the occupancy rate, the number of customers and the expected growth rate thereof.

Call option and put option granted by Shanghai Yidong to the Investor

Call option

Pursuant to the Capital Injection Agreement, in the event that the audited operating net profit of the Target Company is less than 90% of the relevant Guaranteed Amount for the corresponding financial year, the Investor shall have the right, exercisable by the Investor in its sole discretion, to either:

- (i) require Shanghai Yidong to transfer to it (the "**Call Option**"), as compensation and at a nominal consideration of RMB1, certain percentage of equity interest in the Target Company in proportion to the shortfall in operating profit, subject to a maximum percentage of 4% equity interest in the Target Company (the "**Maximum Call Option Interest**"); or
- (ii) dispose of its equity interest in the Target Company.

Put option

Pursuant to the Capital Injection Agreement, despite the provisions under the Call Option, the Investor shall have the right, exercisable in its sole discretion, to require Shanghai Yidong to acquire from it (the “**Put Option**”) all of its equity interest in the Target Company within a period specified by the Investor and at a consideration to be agreed between the Investor and Shanghai Yidong (the “**Put Option Exercise Price**”) (which shall be no less than the aggregate amount of actual contributions by the Investor to the registered capital of the Target Company and subject to the maximum amount of RMB380 million (the “**Put Option Maximum Exercise Price**”)) upon the occurrence of certain specified events, including:

- (i) the Target Company having recorded additional loss exceeding a certain threshold;
- (ii) the actual net profit of the Target Company being less than 70% of the relevant Guaranteed Amount for the corresponding financial year;
- (iii) material changes in management personnel or principal business of the Target Company without the consent of the Investor; or
- (iv) early termination of the Capital Injection Agreement by the Investor pursuant to the terms therein by reason of breaches by Shanghai Yidong, the Company or the Target Company of its obligations under the Capital Injection Agreement (“**Early Termination by Investor**”).

For the avoidance of doubt, in the event that the Investor has exercised the Put Option but Shanghai Yidong fails to acquire the Investor’s equity interest in the Target Company accordingly, the Investor shall be entitled to dispose of the same to a third party and the Company has undertaken to compensate the Investor for the shortfall, if any, between the agreed Put Option Exercise Price and the actual amount received by the Investor from such disposal.

The Board is of the view that the terms of the Call Option (including the Maximum Call Option Interest) and the Put Option (including the Put Option Maximum Exercise Price), which have been reached after arm’s length negotiations among the parties to the Capital Injection Agreement, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Early Termination by Investor

In the event of Early Termination by Investor, the Investor may elect to (i) exercise the Put Option; or (ii) require the Target Company to refund the aggregate amount of actual contributions by the Investor to the registered capital of the Target Company within 30 days from the date of termination of the Capital Injection Agreement.

Guarantee provided by the Company

The Company has provided guarantee in favour of the Investor for the liabilities and obligations of

Shanghai Yidong under the Capital Injection Agreement.

Corporate governance of the Target Company

The existing directors and senior management of the Target Company were all appointed by Shanghai Yidong. Pursuant to the Capital Injection Agreement, the Capital Injection shall not involve any changes to the legal representative, chairman, directors, supervisor or other senior management personnel of the Target Company.

During the Investment Period, the Target Company shall not, without the prior consent of the Investor, make any profit distributions, provide any borrowings or guarantees to external parties or otherwise incur or assume external financial liabilities.

INFORMATION OF THE GROUP AND SHANGHAI YIDONG

The Group is an integrated real estate developer focusing on high-quality development projects and renewal projects in first-tier cities and second-tier cities with high potential in the PRC. While the Group is mainly focusing on high-quality property development, it is also seeking to explore new opportunities in urban development and renewal, medical and senior properties and cultural tourism and innovative technology properties. The Group will also expand its investment businesses, accelerate the investment-withdrawal and gain-capturing process by adopting the “financing, investment, management and withdrawal” approach and operate in a “light and heavy assets in parallel” model. The Group is also putting the strategy of internationalization into practice by seeking high-quality assets overseas, and will prudently attempt limited diversification, including the cultivation of real estate-related internet, funds and finance businesses, striving to become a fully integrated trans-sector real estate and finance group.

Shanghai Yidong is a company incorporated in the PRC with limited liability and an indirect wholly owned subsidiary of the Company. It is principally engaged in investment and business management and consulting and marketing planning. As at the date of this announcement, Shanghai Yidong holds approximately 57.14% equity interest in the Target Company.

INFORMATION OF THE INVESTOR

The Investor is a company incorporated in the PRC with limited liability, and is principally engaged in investment and business management and consulting.

In March 2018, the Investor, a third party independent of the Company and its connected persons at the relevant time, has subscribed for and contributed RMB150 million to the registered capital of the Target Company (the “**First Capital Injection**”), whereby it has become a shareholder of the Target Company holding approximately 42.86% equity interest therein, and therefore has become a connected person of the Company at the subsidiary level.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company incorporated in the PRC with limited liability and is an indirect non-wholly owned subsidiary of the Company held as to approximately 57.14% by Shanghai Yidong and approximately 42.86% by the Investor as at the date of this announcement.

The Target Company holds the entire beneficial interest in a hospital development (the “**Hospital**”), located in Lake Malaren Area, Baoshan District, Shanghai, with a site area of 43,924 square meters. The Target Company also holds 100% equity interest in Shanghai Lake Malaren Obstetrical and Gynecological Hospital Co., Ltd. (上海美蘭湖婦產科醫院有限公司).

Set out below is the consolidated financial information of the Target Group for the two years ended 31 December 2016 and 2017:

	For the financial year ended 31 December	
	2016	2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>RMB</i>	<i>RMB</i>
Net profit/(loss) before taxation and extraordinary items	(48,598,482)	(29,441,383)
Net profit/(loss) after taxation and extraordinary items	(48,598,482)	(29,618,752)

According to the unaudited management accounts of the Target Company as of 31 December 2017, the consolidated total assets and net assets of the Target Group was RMB770,326,410 and RMB133,902,343, respectively.

FINANCIAL EFFECT OF THE DEEMED DISPOSAL AND USE OF PROCEEDS

Upon completion of the Capital Injection, the Target Company will be held as to 40% by Shanghai Yidong and 60% by the Investor. However, by reason of the fact that Shanghai Yidong will maintain control over the board composition and management of the affairs of the Target Company, it is expected that the Target Company will remain as a non-wholly owned subsidiary of the Company, and the financial results of the Target Group will continue to be consolidated into the financial statements of the Group. As such, subject to further audit procedures to be performed by the auditors of the Company, it is expected that the Group will not recognize any gain or loss on the Deemed Disposal..

Pursuant to the Capital Injection Agreement, the proceeds to be received by the Target Company from the Capital Injection shall be applied towards repayment of shareholder loans of the Target Company and thereby improving its financial structure.

REASONS FOR AND BENEFITS OF THE CAPITAL INJECTION

As mentioned above, the proceeds from the Capital Injection will be used to repay shareholder loans of the Target Company. The Board is of the view that the cash inflow from the Capital Injection will

increase the financial flexibility of the Target Company, which would in turn enhance the Group's capability in seizing future development and investment opportunities.

Having regard to the reasons and benefits mentioned above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Capital Injection Agreement, which have been reached after arm's length negotiations among the parties, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Target Company is held as to approximately 57.14% by Shanghai Yidong and approximately 42.86% by the Investor. Upon completion of the Capital Injection, the equity interest held by Shanghai Yidong in the Target Company will be diluted from approximately 57.14% to 40%. Therefore, the Capital Injection contemplated under the Capital Injection Agreement constitutes a deemed disposal of the Group's equity interest in the Target Company under Rule 14.29 of the Listing Rules. As mentioned above, the Target Company will remain as a non-wholly owned subsidiary of the Company and its financial results will continue to be consolidated into the financial statements of the Group.

Each of the grant of the Call Option and the Put Option is treated as a transaction by the Company pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules. As the exercise of the Call Option or the Put Option by the Investor is not at the discretion of Shanghai Yidong or the Company, the transaction will be classified on the grant of the Call Option and the Put Option (as the case may be) as if it has been exercised according to Rule 14.74 of the Listing Rules.

The Investor is a substantial shareholder of the Target Company, an indirect non-wholly owned subsidiary of the Company. Accordingly, the Investor is a connected person of the Company at the subsidiary level. Each of the Capital Injection, the grant of the Call Option and the grant of the Put Option constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rules 14.22 and 14A.81 of the Listing Rules, the Capital Injection is required to be aggregated with the First Capital Injection and the grant of the Call Option as they were all entered into within a 12-month period. As one or more of the applicable percentage ratios in respect of the Deemed Disposal (i.e. the Capital Injection), when aggregated with the First Capital Injection and the grant of the Call Option (with reference to the Maximum Call Option Interest), exceed(s) 5% but is/are less than 25%, the Deemed Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements.

Since (i) the Investor is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Capital Injection Agreement and the transactions contemplated thereunder; and (iii) the independent non-executive Directors have confirmed that the terms of the Capital Injection Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole (despite the Capital Injection not being in the ordinary and usual course of business of the Group), each of the Capital Injection (as aggregated with the First Capital Injection and

the grant of the Call Option) and the grant of the Put Option is only subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

The Company will comply with the relevant Listing Rules requirements on the exercise of the Call Option or the Put Option.

To the best of the Board's knowledge, information and belief having made all reasonable enquiries, no Director has a material interest in the Capital Injection or the grant of the Call Option and the Put Option, and no Director has abstained from voting on the board resolutions approving the Capital Injection Agreement.

DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“Board”	the board of Directors
“Capital Injection”	the capital injection of RMB150 million (for illustration purpose only, equivalent to approximately HK\$186,000,000 using the exchange rate of RMB1:HK\$1.24) by the Investor to the registered capital of the Target Company as contemplated under the Capital Injection Agreement
“Capital Injection Agreement”	a capital injection agreement dated 15 May 2018 and entered into among the Investor, Shanghai Yidong, the Company and the Target Company in relation to the Capital Injection
“Company”	SRE Group Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deemed Disposal”	the deemed disposal of approximately 17.14% equity interest in the Target Company by Shanghai Yidong to the Investor as a result of the Capital Injection
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Investor”	Shangzhi Asset Management (Shanghai) Co., Ltd. (上置資產管理(上海)有限公司), a company incorporated in the PRC with limited liability which holds approximately 42.86% equity interest in the Target Company as at the date of this announcement, a connected person of the Company at the subsidiary level
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Yidong”	Shanghai Yidong Investment Management Co., Ltd. (上海意動投資管理有限公司), a company incorporated in the PRC with limited liability, an indirect wholly owned subsidiary of the Company which holds approximately 57.14% equity interest in the Target Company as at the date of this announcement
“Shareholders”	registered holders of the Shares from time to time
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“Target Company”	Shanghai Lake Malaren Hospital Investment Co., Ltd. (上海美蘭湖醫院投資有限公司), a company incorporated in the PRC with limited liability, an indirect non-wholly owned subsidiary of the Company held as to approximately 57.14% by Shanghai Yidong and approximately 42.86% by the Investor as at the date of this announcement
“Target Group”	the Target Company and its subsidiaries
“%”	per cent

By Order of the Board
SRE Group Limited
Peng Xinkuang
Chairman

Hong Kong, 15 May 2018

As at the date of this announcement, the Board comprises seven executive directors, namely Mr. Peng Xinkuang, Mr. Liu Feng, Mr. Chen Donghui, Mr. Chen Chao, Mr. Shi Janson Bing, Mr. Zhu Qiang and Ms. Qin Wenying; and four independent non-executive directors, namely Mr. Zhuo Fumin, Mr. Chan, Charles Sheung Wai, Mr. Ma Lishan and Mr. Han Gensheng.

**For identification purpose only*