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 2018

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2018
Revenue (RMB'000)	**810,649**
Net profit attributable to owners of the Company (RMB'000)	**82,409**
Basic earnings per share (RMB cents)	**0.40**
Dividend per share – Interim (RMB 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 2018 together with comparative figures for the previous corresponding period in 2017. The unaudited interim financial information for the six months ended 30 June 2018 has 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 2018

(Amounts presented in thousands of Renminbi unless otherwise stated)

		For the six months ended 30 June	
		2018	2017
	Notes	**Unaudited**	Unaudited
Revenue	*3*	**810,649**	519,591
Cost of sales		**(406,216)**	(470,961)
Gross profit		**404,433**	48,630
Gains from disposal of subsidiaries and partial interest in a joint venture	*4*	**223,307**	1,141,944
Net impairment losses on financial assets		**(4,342)**	–
Other gains/(losses) – net		**3,650**	(10,321)
Selling and marketing expenses		**(19,322)**	(25,871)
Administrative expenses		**(138,626)**	(149,653)
Operating profit		**469,100**	1,004,729
Finance income		**54,979**	10,008
Finance costs		**(292,540)**	(245,105)
Finance costs – net		**(237,561)**	(235,097)
Share of results of associates		**(12,560)**	45,387
Share of results of joint ventures		**(49,977)**	(1,457)
Profit before income tax		**169,002**	813,562
Income tax expense	*5*	**(72,442)**	(186,669)
Profit for the period		**96,560**	626,893

	Notes	For the six months ended 30 June **2018** **Unaudited**	2017 Unaudited
Other comprehensive income, net of tax			
Item that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2,134)**	10,948
Total comprehensive income for the period		**94,426**	637,841
Profit attributable to:			
Owners of the Company		**82,409**	622,749
Non-controlling interests		**14,151**	4,144
		96,560	626,893
Total comprehensive income attributable to:			
Owners of the Company		**80,275**	633,697
Non-controlling interests		**14,151**	4,144
		94,426	637,841
Earnings per share attributable to owners of the Company	*6*		
– Basic		**RMB0.0040**	RMB0.0303
– Diluted		**RMB0.0040**	RMB0.0303

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

(Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	**30 June 2018 Unaudited**	31 December 2017 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**718,858**	737,265
Investment properties		**5,359,662**	5,375,199
Prepaid land lease payments		**199,692**	204,403
Goodwill		**16,271**	16,271
Investments in associates		**1,257,029**	1,043,140
Investments in joint ventures		**3,963,922**	4,018,705
Deferred tax assets		**242,837**	242,837
Financial assets at fair value through other comprehensive income		**382,836**	–
Financial assets at fair value through profit and loss		**23,830**	–
Available-for-sale investments		**–**	407,790
Other financial assets at amortised cost		**574,426**	–
Loans and receivables		**–**	579,994
Other non-current assets		**662,673**	810,800
		13,402,036	13,436,404
Current assets			
Prepaid land lease payments		**2,008,867**	1,905,849
Properties held or under development for sale		**1,778,238**	2,257,686
Inventories		**1,182**	849
Trade receivables	*8*	**25,074**	24,438
Other receivables		**1,812,299**	1,716,383
Prepayments and other current assets		**565,748**	322,365
Prepaid income tax		**98,542**	96,419
Other financial assets at amortised cost		**1,609,530**	–
Loans and receivables		**–**	1,172,011
Cash and cash equivalents		**546,510**	1,207,119
Restricted cash		**302,613**	245,796
		8,748,603	8,948,915
Assets classified as held for sale		**750**	–
		8,749,353	8,948,915
Total assets		**22,151,389**	22,385,319

	Notes	30 June 2018 Unaudited	31 December 2017 Audited
EQUITY AND LIABILITIES			
EQUITY			
Issued share capital and premium		**6,747,788**	6,747,788
Other reserves		**136,896**	240,440
Retained profits		**440,424**	391,979
Equity attributable to owners of the Company		**7,325,108**	7,380,207
Non-controlling interests		**547,183**	433,761
Total equity		**7,872,291**	7,813,968
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**5,762,361**	6,151,564
Deferred tax liabilities		**1,488,957**	1,447,258
		7,251,318	7,598,822
Current liabilities			
Interest-bearing bank and other borrowings		**2,436,378**	2,447,238
Advances received from the pre-sale of properties under development		–	1,015,262
Contract liabilities		**845,088**	–
Trade payables	*9*	**578,832**	703,382
Other payables and accruals		**2,321,146**	1,893,378
Current income tax liabilities		**846,336**	913,269
		7,027,780	6,972,529
Total liabilities		**14,279,098**	14,571,351
Total equity and liabilities		**22,151,389**	22,385,319

Notes to the Interim Condensed Consolidated Financial Information

(Amounts presented in thousands of Renminbi unless otherwise stated)

1. Basis of Preparation and Accounting Policies

1.1 Basis of preparation

The notes included herein are extracted from the full set of interim condensed consolidated financial information of the Group for the six months ended 30 June 2018 which has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial information does 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

1.2 Significant accounting policies

Except as described below and for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings, the accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

New standards, amendments and interpretation to HKFRSs adopted by the Group in 2018

The Group adopts the following new standards, amendments and interpretation to HKFRSs effective for the financial year ending 31 December 2018.

- HKFRS 9 "Financial Instruments"
- HKFRS 15 "Revenue from Contracts with Customers"
- Amendments to HKFRS 2 "Classification and Measurement of Share-based Payments Transactions"
- Amendment to HKAS 28 "Investments in Associates and Joint Ventures"
- Amendments to HKAS 40 "Transfers of Investment Property"
- HK (IFRIC) 22 "Foreign Currency Transactions and Advance Consideration"

The adoption of the above new standards, amendments and interpretation to existing HKFRSs do not have a material impact on the financial position and performance of the Group, except for HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers as set out below.

1.3 Changes in accounting policies

(i) Impact on the financial information

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

Consolidated Statement of Financial Position (extract)	**31 December 2017 Audited**	**HKFRS9**	**HKFRS15**	**1 January 2018 (Restated) Unaudited**
Non-current assets				
Financial assets at fair value through other comprehensive income	–	382,836	–	382,836
Financial assets at fair value through profit and loss	–	24,954	–	24,954
Available-for-sale investments	407,790	(407,790)	–	–
Other financial assets at amortised cost	–	574,426	–	574,426
Loans and receivables	579,994	(579,994)	–	–
Other non-current assets	810,800	(2,614)	–	808,186
Current assets				
Trade receivables	24,438	–	–	24,438
Other receivables	1,716,383	(14,531)	–	1,701,852
Other financial assets at amortised cost	–	1,160,760	–	1,160,760
Loans and receivables	1,172,011	(1,172,011)	–	–
Cash and cash equivalents	1,207,119	–	–	1,207,119
Restricted cash	245,796	–	–	245,796
Total assets	22,385,319	(33,964)	–	22,351,355
Current liabilities				
Advances received from the pre-sale of properties under development	1,015,262	–	(1,015,262)	–
Contract liabilities	–	–	1,015,262	1,015,262
Total liabilities	14,571,351	–	–	14,571,351
Other reserves	240,440	–	–	240,440
Retained profits	391,979	(33,964)	–	358,015
Total equity	**7,813,968**	**(33,964)**	**–**	**7,780,004**

(ii) Impact of adoption – HKFRS 9

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amount recognised in the financial statements. In accordance with the transitional provision in HKFRS 9, comparative figures have not been restated. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

The impact on the Group's retained profits as at 1 January 2018 due to the classification and measurement of financial instruments is as follows:

Closing retained profits as at 31 December 2017 – HKAS 39	391,979
Increase in provision for other financial assets at amortised cost	(16,819)
Increase in provision for other non-current assets	(2,614)
Increase in provision for other receivables	(14,531)
Opening retained profits as at 1 January 2018 – HKFRS 9	358,015

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

(1) Reclassification from available-for-sale investments to financial assets at fair value through profit and loss ("FVPL")

Investments related to a loan granted with variable return to an unlisted company were reclassified from available-for-sale investments to financial assets at FVPL (approximately RMB25 million as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

(2) Available-for-sale investments classified as financial assets at fair value through other comprehensive income ("FVOCI")

Investments in secured loan packages were reclassified from available-for-sale investments to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principals and interest. As a result, investments in secured loan packages with a fair value of approximately RMB383 million as at 1 January 2018 were reclassified from available-for-sale investments to financial assets at FVOCI and corresponding fair value gains of approximately RMB2 million were reclassified from the available-for-sale investments reserve to the FVOCI reserve.

Impairment of financial assets

The Group has the following types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- cash and cash equivalents
- restricted cash
- trade receivables
- financial assets at fair value through other comprehensive income
- other receivables
- other financial assets at amortised cost
- other non-current assets

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained profits is disclosed in the table above.

While cash and cash equivalents, restricted cash, trade receivables and financial assets at fair value through other comprehensive income are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group adopts general approach for expected credit loss of other receivables, other financial assets at amortised cost and other non-current assets, and considers the possibility of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

Applying the expected credit risk model resulted in the recognition of loss allowances of RMB33,964,000 on 1 January 2018 and a further increase in the loss allowances by RMB4,342,000 for other receivables, other financial assets at amortised cost and other non-current assets during the six months ended 30 June 2018.

(iii) Impact of adoption – HKFRS 15

According to the transitional provision of HKFRS 15, the Group applied modified retrospective approach upon adoption and did not restate figures of the comparative periods.

Presentation of assets and liabilities related to contracts with customers

The Group has changed the presentation of the following balance in the statement of financial position to reflect the terminology of HKFRS 15:

– Proceeds received in relation to property sales contracts of RMB1,015,262,000 as at 31 December 2017 were previously included in advances received from the pre-sale of properties under development and were now reclassified as contract liabilities as at 1 January 2018.

For the six months ended 30 June 2018, the Group has assessed that there is no enforceable right to payment from the customers for performance completed to date. Thus, the Group has concluded that the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

The Group has not early adopted any other new financial reporting and accounting standards, amendments or interpretation of HKFRSs that were issued but are not yet effective.

2. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services. The reportable operating segments are 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 other operations comprises, principally, the corporate activities that are not allocated to segments and miscellaneous insignificant operations including the remaining small scale hotel operation and 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 income 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 operating segment is as follows:

	Six months ended 30 June 2018 (unaudited)			
	Property development	**Property leasing**	**Other operations**	**Total**
Segment revenue				
Sales to external customers	**664,740**	**80,387**	**65,522**	**810,649**
Intersegment sales	**–**	**–**	**8,154**	**8,154**
	664,740	**80,387**	**73,676**	**818,803**
Reconciliation:				
Elimination of intersegment sales				**(8,154)**
Revenue				**810,649**
Segment profit	**259,159**	**62,571**	**147,370**	**469,100**
Finance income				**54,979**
Finance costs				**(292,540)**
Finance costs – net				**(237,561)**
Share of results of associates				**(12,560)**
Share of results of joint ventures				**(49,977)**
Profit before income tax				**169,002**

	Six months ended 30 June 2017 (unaudited)			
	Property development	Property leasing	Other operations	Total
Segment revenue				
Sales to external customers	417,623	71,579	30,389	519,591
Intersegment sales	–	–	10,460	10,460
	417,623	71,579	40,849	530,051
Reconciliation:				
Elimination of intersegment sales				(10,460)
Revenue				519,591
Segment (loss)/profit	(40,619)	65,930	979,418	1,004,729
Finance income				10,008
Finance costs				(245,105)
Finance costs – net				(235,097)
Share of results of associates				45,387
Share of results of joint ventures				(1,457)
Profit before income tax				813,562

3. Revenue

An analysis of revenue during the period is as follows:

	(unaudited) For the six months ended 30 June	
	2018	2017
Revenue from sale of properties	**665,364**	417,769
Revenue from property leasing	**81,580**	74,438
Revenue from property management	**12,638**	8,320
Revenue from construction of infrastructure for an intelligent network	**838**	2,041
Other revenue	**53,315**	20,974
	813,735	523,542
Less: Tax and surcharges *(a)*	**(3,086)**	(3,951)
Total revenue	**810,649**	519,591

(a) Tax and surcharges

Effective from 1 May 2016, the Group's revenue is subject to value-added tax ("VAT") which is deducted directly from the proceeds. The applicable VAT rate for the Group's revenue is as follows:

- Sale and lease of properties is subject to VAT at 11%. Qualified old projects, which are those with construction commenced on or before 30 April 2016, can adopt a simplified VAT method at a rate of 5% with no deduction of input VAT.

- Revenue from property management services is subject to VAT at 6%.

- Revenue from construction of infrastructure for an intelligent network is subject to VAT at 11%.

Government surcharges, comprising city maintenance and construction tax, education surtax and river way management fee, are calculated at certain percentages of business tax and VAT.

4. Gains from disposal of subsidiaries and partial interest in a joint venture

	(unaudited) For the six months ended 30 June	
	2018	2017
Gains from disposal of subsidiaries *(a)*	**219,583**	1,141,944
Gain from disposal of partial interest in a joint venture	**3,724**	–
	223,307	1,141,944

(a) In April 2018, a third party increased capital injection to an originally subsidiary of the Group, Changsha Horoy, and thus diluted the Group's equity interest from 66.5% to 49.5% and lost control in Changsha Horoy. As such, Changsha Horoy became an associate of the Group after the transaction. On the disposal date, the net asset value attributable to the Group of Changsha Horoy was approximately RMB7 million. After the dilution of 17% equity interest in Changsha Horoy, the 49.5% remained interest held by the Group was remeasured to its fair value of approximately RMB226 million at the date when control was lost, and the difference with its then carrying amount was approximately RMB219 million. As such, the Group recorded a gain on disposal of approximately RMB219 million.

In June 2018, the Group disposed all of its 100% equity interest in SRE Capital Limited ("SRE Capital") at a consideration of approximately RMB0.57 million. On the disposal date, the net asset value attributable to the Group of SRE Capital was approximately RMB0.21 million. The Group recorded a gain on disposal of approximately RMB0.36 million.

In April 2017, the Group disposed 49% equity interest in its wholly owned subsidiary, Shanghai Jinxin Real Estate Co. Ltd. ("Jinxin"), to Shanghai Zhongchong Binjiang Industry Co., Ltd at a consideration of approximately RMB2,112 million. After the disposal, the Group cease to have control in Jinxin, and Jinxin has become a joint venture of the Group. On the date of disposal, net asset value of Jinxin amounted to approximately RMB3,082 million, which resulted in a gain on disposal of approximately RMB602 million. In addition, the retained 51% of equity interest was re-measured to its fair value as initial carrying value for the joint venture with the change in carrying amount of approximately RMB540 recognized as a gain in profit or loss.

5. Income Tax Expense

	(unaudited) For the six months ended 30 June	
	2018	2017
Current taxation		
– Mainland China income tax *(a)*	**9,682**	14,133
– Mainland China LAT *(c)*	**21,061**	14,448
	30,743	28,581
Deferred taxation		
– Mainland China income tax	**45,689**	161,049
– Mainland China LAT	**(1,268)**	(1,522)
– Mainland China withholding tax *(d)*	**(2,722)**	(1,439)
	41,699	158,088
Total tax charge for the period	**72,442**	186,669

(a) Mainland China income tax

The Group conducts a significant portion of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25%, in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of sale transactions and revenue recognition, based on certain estimations. Such prepaid taxes are initially recorded in the statement of financial position and later released to profit or loss upon revenue recognition.

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2035. 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 (2017: Nil).

(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% (2017: 2% to 5%) on proceeds of the sale and pre-sale of properties. Such prepaid taxes are initially recorded in the statement of financial position and later released to profit or loss upon revenue recognition.

(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.

6. Earnings per Share Attributable to Owners of the Company

The calculation of basic earnings per share amount is based on the profit/(loss) for the period attributable to owners of the Company, and the weighted average number of ordinary shares of 20,564,713 thousand (2017: 20,564,713 thousand) in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The share options issued in 2016 constitute dilutive shares. For the Company's share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

For the six months ended 30 June 2018 and 2017, as the average market share price of the Company's shares was lower than assumed exercise price including the fair value of any services to be supplied to the Group in the future under the share option arrangement, the impact of exercise of the share options on earnings per share is anti-dilutive.

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

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Earnings		
Profit attributable to owners of the Company	**82,409**	622,749

	Number of shares	
	For the six months ended 30 June 2018 *(Thousand shares)*	For the six months ended 30 June 2017 *(Thousand shares)*
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculations	**20,564,713**	20,564,713

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of issuance of these financial information.

7. Dividend

On 24 August 2018, the Board resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: Nil).

8. Trade Receivables

	30 June 2018 Unaudited	31 December 2017 Audited
Trade receivables	**52,837**	52,281
Less: Provision for impairment	**(27,763)**	(27,843)
	25,074	24,438

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 2018 Unaudited	31 December 2017 Audited
Within 6 months	**13,878**	18,056
6 months – 1 year	**5,371**	6,382
1 – 2 years	**5,825**	–
Over 2 years	**27,763**	27,843
	52,837	52,281

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.

9. Trade Payables

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 2018 Unaudited	31 December 2017 Audited
Within 1 year	**342,125**	467,638
1 – 2 years	**86,552**	48,693
Over 2 years	**150,155**	187,051
	578,832	703,382

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 six months ended 30 June 2018 (the "Reporting Period"), the Group recorded a net revenue of approximately RMB811 million (first half of 2017: RMB520 million), which represents an increase by approximately 56% compared with that of the corresponding period of last year. Profit attributable to owners of the Company for the six months ended 30 June 2018 amounted to approximately RMB82 million while profit attributable to owners of the Company for the corresponding period of last year was approximately RMB623 million. The decrease is mainly attributable to the decrease in gains arising from the Group's exit from investments as a result of the regulation and control of domestic macro-economy and property industry in China during the Reporting Period. Despite the decrease in net profit and profit attributable to the owners of the Company, as the Group accelerated the progress of the development and delivery of real estate during the Reporting Period, the Group recorded an increase in both revenue and gross profit from real estate development during the Reporting Period as compared with the corresponding period of last year.

The Board resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: Nil).

Liquidity and Financial Resources

As at 30 June 2018, cash and bank balances amounted to approximately RMB849 million (31 December 2017: approximately RMB1,453 million). Working capital (net current assets) of the Group as at 30 June 2018 amounted to approximately RMB1,722 million (31 December 2017: approximately RMB1,976 million), representing a decrease by approximately 13% as compared with the previous year. Current ratio was at 1.24x (31 December 2017: 1.28x).

As at 30 June 2018, the Group's gearing ratio was 48% (31 December 2017: 48%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balances) over total capital (total equity and net borrowings).

Charges on Assets and Contingent Liabilities

As at 30 June 2018, the Group's bank and other borrowings of approximately RMB3,335 million (31 December 2017: approximately RMB3,740 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 and bank deposits.

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 such guarantee contracts with principal amounts totaling approximately RMB375 million (31 December 2017: approximately RMB844 million) and these contracts were still effective as at 30 June 2018.

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 2018, under the guiding policies of "Houses are for living in, not for speculation" and "Targeted policy for specific city", each city continued to use the specific targeted policy to control housing prices, prevent asset bubbles and destock at the same time. The cities in focus continued to tighten the related policies, and surrounding third-tier and fourth-tier cities followed suit. Housing prices in different cities tended to move in separate direction. Prices in first-tier cities slightly declined on a stable note; prices in second-tier cities continued to rise as compared with the first six months of the last year while the growth in prices in third-tier and fourth-tier cities narrowed gradually. Domestic structural deleveraging continued to be implemented steadily. Market liquidity were relatively tight, and financing costs for real estate enterprises have increased significantly.

Under such environment, the Group maintained its strategic strength, adhering to the dual drive model of real estate development and real estate investment. In terms of sales, the Group seized the favorable opportunity of the market, continued to take advantage of its high-quality branded projects, and increased marketing efforts. As for operations, the Group has strengthened its cost control, optimized procedures, kept up with the progress of projects, and pursued a stable steam of profit and cash flow. In terms of investment, the Group was more cautious in making new investments and managed to catch the right moment for exit. In the first half of the year, the Cambodian Residential Project was launched, while the Group grasped the market opportunity to realize return in cash by disposing of some assets at a higher price. In the first half of the year, the Shanghai project in the Beijing, Shanghai and Shenzhen Asset Package was transferred at a high premium; the Changsha Project attracted additional investment at premium; purchase and sale agreement of the Caolu asset package was signed at a premium; and also the UK projects were partially withdrawn, enabling the Group to successfully implement the financial real estate model, and the business model of "real estate + industry" was initially proved to be at work.

Real Estate Development

Sales Progress

In the first half of 2018, major projects for sale of the Group and its joint ventures and associates included Shanghai Albany Oasis Garden, Shanghai Huating Project, Shenyang Albany Garden, Chengdu Albany Oasis Garden, Jiaxing Project and Shanghai Xiangzhang Garden. In the first half of 2018, the Group together with its joint ventures and associates achieved contract sales of approximately RMB2,362 million for a total floor area of 64,084 m^2, representing a decrease of 9% as compared with the same period last year. The average selling price was RMB36,853 per m^2. Major projects for sale 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 1,141 m^2 was sold in the first half of 2018 and the total contract sum amounted to RMB95 million (averaging RMB83,191 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 1,270 m^2 was sold in the first half of 2018, and the total contract sum amounted to RMB130 million (averaging RMB101,764 per m^2). The Group holds 50.36% equity interest of Shanghai Huating Project.

Shenyang Albany Garden

Shenyang Albany Garden is situated on South Heping Road of Heping District in Shenyang City, Liaoning Province, and is a residential community with an excellent geographical location and with well-developed transportation networks. A total area of 2,746 m^2 was sold in the first half of 2018, and the total contract sum amounted to RMB39 million (averaging RMB10,647 per m^2). The Group holds 98.71% equity interest of Shenyang Albany Garden.

Chengdu Albany Oasis Garden

Chengdu Albany Oasis Garden is located at Hongguang Town, Pi County, Chengdu City and is a residential community of high quality with convenient transportation facilities. A total area of 2,623 m^2 was sold in the first half of 2018, and the total contract sum amounted to RMB94 million (averaging RMB19,238 per m^2). The Group holds 100% equity interest of Chengdu 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 18,677 m^2 was sold in the first half of 2018, and the total contract sum amounted to RMB188 million (averaging RMB10,088 per m^2). The Group holds 98.75% equity interest of Jiaxing Project.

Shanghai Xiangzhang Garden

Shanghai Xiangzhang Garden, which comprises of commercial apartments, commercial flats and car parks, is located within the core business circle of Nanjing Road West, Jingan District, Shanghai City, right next to Plaza 66. A total area of 37,060 m^2 was sold in the first half of 2018, and the total contract sum amounted to RMB1,809 million (averaging RMB48,812 per m^2).

Land Bank

As at 30 June 2018, the Group owned a land bank with a total gross floor area of approximately 2.12 million m^2 in Shanghai, Shenyang, Chengdu, Changsha, Dalian, London, San Francisco, Cambodia, etc. The Company stays abreast of industry development dynamics, explores its own resources and advantages and is committed to discovering assets which are underestimated or with growth potential.

Progress of Construction

Chengdu Albany Oasis Garden

As of the end of the first half of 2018, the construction of Blocks No. 3, 4, 5 and 6 of Phase II of Chengdu Albany Oasis Garden is completed and acceptance checks on fire control and air defense facilities were duly passed, of which Blocks No. 3 and 4 had started handover preparation work of fine decoration.

Shenyang Albany Garden

In January 2018, Block No. 8 of Section B of Phase II of Shenyang Albany Garden received the certificate of completion and was delivered to the property owners. Section A of Phase III received the certificate of completion in June 2018 and Section B of Phase III is currently pending for planning proposal approval.

Progress of Relocation

Shanghai Rich Gate I

During the first half of 2018, contracts were signed for 880 certificates of households (including certificates of individuals) in aggregate, representing a signing rate of 87.3%; 660 certificates of households (including certificates of individuals) were relocated, representing a relocating rate of 65.5%; contracts were re-signed for 605 certificates of households (including certificates of individuals) in aggregate, representing a re-signing rate of 60%; contracts were signed for 32 certificates of enterprises, representing a signing rate of 82.05%; and 17 certificates of enterprises were relocated and settled, accounting for 43.59% of the total of 39 certificates. During the first half of 2018, a total of 120 certificates of households' expropriation compensation information in aggregate were delivered to the district expropriation center. The district government has issued expropriation compensation notice to 47 households.

Shenyang Albany Garden

As of the end of 2017, Shenyang Albany Garden had signed relocation contracts with 1,400 households and 24 enterprises (including schools), with negotiations for 54 households and 1 enterprise still in progress. During the first half of 2018, contracts were signed for 27 households in aggregate. Three old buildings in Wanghu Road including Blocks No 5 and 7 were demolished. The signing rate of households' relocation was approximately 98%, while signing rate of enterprises and schools was 96%.

Changsha Fudi Albany Project

As of the end of 2017, there were 99 legal households in the land area of Changsha Fudi Albany Project. In the first half of 2018, contracts were signed for 99 households in aggregate, representing a signing rate of 100%. Two housing of legal household were not demolished, with relocation rate of 98%. 75 tombs were relocated, with completion rate of 50%.

Dalian Oasis City Garden

Dalian Oasis City Garden is divided into 9 sections. As of the end of 2017, the relocation was nearly finished. One household of the Auto Square was waiting to be demolished. The signing rate of the Steel Square reached 100%, while demolition rate reached 30%. The report on the transfer of land has been completed. During the first half of 2018, the oil pipeline protection plan has been completed; the Steel Square and the Auto Square have been demolished; contracts for the mobile base station has been signed off; and the collocation of transfer of land has steadily continued; The basic principles of compensation have been clarified with the government.

Shanty Town Renovation Project in Zhangjiakou

Shanty Town Renovation Project in Zhangjiakou, located in Qiaoxi District, Zhangjiakou, Hebei Province, covers an area of approximately 215 mu and involves a relocation area of 86,000 m^2 and residents of 930 households. During the first half of 2018, signing rate was approximately 55.81% in aggregate.

Commercial Property Operation

During the first half of 2018, the Group continued to enhance the management and operation of its self-owned 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.

Oasis Central Ring Centre

As a landmark of the Shanghai Central Ring business district, Oasis Central Ring Centre, with the high qualities of Grade 5A office buildings and being well equipped with all sorts of facilities, has attracted an increasing number of companies to move in. During the first half of 2018, the Group had made tremendous efforts in attracting tenants for Oasis Central Ring Centre. The total area leased of the No. 5 building was 4,016 m^2, the occupancy rate reached 100%, and the operating revenue was RMB 24.36 million.

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall is committed to creating a one-stop business and leisure life center integrating fashion and shopping, leisure and entertainment, cultural and educational, business and social, fashion and catering. During the first half of 2018, there were 41 new tenants, with new area leased of 7,752 m^2. Rental income was RMB11.05 million and operating revenue was RMB23.68 million.

41 Tower Hill Project in the UK

The project is located on the east side of the City of London. It is a freehold property with a site area of approximately 7,000 m^2, and comprises an existing office building and an adjoining car park. Currently, the office has a floor area of 15,509 m^2 (166,940 square feet); gross floor area of 21,189 m^2 (228,075 square feet). The office building is leased to Société Générale for a term of about 3 years expiring in March 2020. During the term, it may be re-planned to increase lease area. After the moving out of the tenant, renovation and modification to the building will be made.

12 Moorgate Project in the UK

The project is located in the core district of the City of London (EC2), which is a global financial and insurance center. It is a freehold property developed in 1998 with 6 floors and one basement. The property has a rentable area of 3,151 m^2 (33,941 square feet) for office use. Its existing tenant is Schroders PLC, a renowned global wealth management company. The lease will expire in December 2019. During the term, it may be re-planned to increase lease area. After the moving out of the tenant, renovation and modification to the building will be made.

Development of Investment Projects

Cambodian Residential Project

The project is located in the Sen Sok District, west of the Cambodian capital, Phnom Penh. It is adjacent to Russian Boulevard, the only main road that runs through the east and west and connecting the airport to the urban area, and is about 4.5 kilometers from the Phnom Penh Airport and the Prime Minister's Office. With a total area of 16,327 m^2, it has a larger space to develop commercial projects facing the streets. The project was signed in the first half of 2018.

Exit from Investment after Making a Profit

Shanghai Project of Beijing, Shanghai and Shenzhen Asset Package

The project is a commercial project located in Shanghai of the Beijing, Shanghai and Shenzhen Asset Package. It is situated in the prime business district of Plaza 66, Nanjing West Road, Jingan District, the project was acquired at the end of 2016 and tendering for sale was completed in February 2018, the sale price was at a premium of approximately RMB 300 million over the listed price.

Caolu Project

In July 2016, the Company acquired the debenture of Caolu assets package with RMB 205 million. After the acquisition, the Company continued to negotiate with the actual controller for cooperation and contact potential buyers for the debenture. In May 2018, at a consideration of RMB 330 million, contracts were signed to transfer the Caolu asset package at a premium, demonstrating on successful implement action of the financial real estate model.

The UK Projects

The UK projects were acquired in 2016, consisting of two office buildings and one residential project. In May 2018, after several rounds of negotiations with the partners, the partial exit was successfully achieved.

BUSINESS OUTLOOK

In the first half of 2018, the market policy of each city continued the overall direction of 2017. The industry policy environment has not undergone fundamental changes, and the overall performance of the industry could be maintained. For the future outlook of the property market, the general principle of "Houses are for living in, not for speculation" has become market consensus. The market regulatory policy will not be relaxed and fine tuning of the targeted policy for specific city will continue. As the regulation cycle is significantly lengthened, the uncertainty over capital chain will be the key to the future trend of the industry. The second half of the year will be the peak season for debt repayment of real estate enterprises. With the narrowing of financing channels, the financing cost will inevitably rise further and the capital pressure of real estate enterprises will further increase.

In the second half of 2018, under the environment of tight ended liquidity and increasing concentration in the industry, the Group will further strengthen the dual drives' model of real estate development and real estate investment. Real estate development and operation mainly provide cash flow support for the Company's development, while the real estate investment business (financing, investment, management and withdrawal) mainly generate profits for the Company's development. At the same time, in terms of capital, the Group should explore diversified financing channels, optimize its financing structure, and actively explore asset securitization and multi-party cooperation and expansion projects with investment funds.

EMPLOYEES

As at 30 June 2018, the Group had 548 employees in Hong Kong and the PRC. Total staff costs of the Group excluding directors' remuneration, for the six months ended 30 June 2018 amounted to approximately RMB66.30 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 2018.

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 2018.

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 information for the six months ended 30 June 2018 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2018, 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. Han Gensheng, Independent Non-executive Director, did not attend the annual general meeting of the Company for the year 2018 due to other business engagements.

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 2018 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

On behalf of the Board
SRE Group Limited
Peng Xinkuang
Chairman

Hong Kong, 24 August 2018

As at the date hereof, the Board comprises seven executive directors, namely Mr. Peng Xinkuang, Mr. Liu Feng, Mr. Chen Donghui, Mr. Chen Chao, Mr. Zhu Qiang, Ms. Qin Wenying and Mr. Jiang Qi; 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*