SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

2018 ANNUAL RESULTS ANNOUNCEMENT

The board (the "Board") of directors (the "Directors") of SRE Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	**2018**	2017
Revenue	*4*	**1,551,309**	1,620,473
Cost of sales	*5*	**(1,077,340)**	(1,236,234)
Gross profit		**473,969**	384,239
Gains from disposal of subsidiaries and interests in a joint venture – net	*6*	**242,900**	1,585,922
Net impairment losses on financial assets	*5*	**(11,476)**	–
Other gains – net		**176,113**	26,743
Selling and marketing expenses	*5*	**(45,085)**	(54,811)
Administrative expenses	*5*	**(241,587)**	(679,489)
Operating profit		**594,834**	1,262,604
Finance income		**70,350**	57,153
Finance costs		**(547,406)**	(504,051)
Finance costs – net		**(477,056)**	(446,898)
Share of results of associates		**72,033**	74,332
Share of results of joint ventures		**17,672**	(12,049)
Profit before income tax		**207,483**	877,989
Income tax expense	*7*	**(108,637)**	(157,685)
Profit for the year		**98,846**	720,304

	Notes	2018	2017
Other comprehensive (losses)/income, net of tax			
Items that may be reclassified to profit or loss in subsequent periods:			
Changes in the fair value of available-for-sale investments		**–**	1,523
Exchange differences on translation of foreign operations		**(4,248)**	352
Item recycled to profit or loss:			
Fair value gains previously recognised through other comprehensive income recycled to profit or loss and included in other gains upon disposal of financial assets at fair value through other comprehensive income		**(1,523)**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**93,075**	722,179
Profit/(loss) attributable to:			
Owners of the Company		**113,530**	690,543
Non-controlling interests		**(14,684)**	29,761
		98,846	720,304
Total comprehensive income/(losses) attributable to:			
Owners of the Company		**107,759**	692,418
Non-controlling interests		**(14,684)**	29,761
		93,075	722,179
Earnings per share attributable to owners of the Company	*8*		
– Basic		**RMB0.01**	RMB0.03
– Diluted		**RMB0.01**	RMB0.03

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

		31 December	
	Notes	**2018**	2017
ASSETS			
Non-current assets			
Property, plant and equipment		**706,767**	737,265
Investment properties		**5,408,444**	5,375,199
Prepaid land lease payments		**197,500**	204,403
Goodwill		**16,271**	16,271
Investments in associates		**1,105,416**	1,043,140
Investments in joint ventures		**3,825,696**	4,018,705
Deferred tax assets		**242,837**	242,837
Financial assets at fair value through other comprehensive income		**150,657**	–
Other financial assets at amortised cost	*10*	**574,426**	–
Available-for-sale investments		–	407,790
Loans and receivables	*10*	–	579,994
Other non-current assets		**171,474**	810,800
		12,399,488	13,436,404
Current assets			
Prepaid land lease payments		**1,808,404**	1,905,849
Properties held or under development for sale		**1,542,450**	2,257,686
Inventories		**848**	849
Trade receivables	*11*	**16,984**	24,438
Other receivables		**2,365,212**	1,716,383
Prepayments and other current assets		**341,216**	322,365
Prepaid income tax		**103,400**	96,419
Other financial assets at amortised cost	*10*	**1,611,011**	–
Loans and receivables	*10*	–	1,172,011
Cash and cash equivalents		**698,610**	1,207,119
Restricted cash		**2,623**	245,796
		8,490,758	8,948,915
Total assets		**20,890,246**	22,385,319

	Notes	31 December **2018**	2017
EQUITY AND LIABILITIES			
Equity			
Issued share capital and share premium		**6,747,788**	6,747,788
Other reserves		**235,929**	240,440
Retained profits		**461,772**	391,979
Equity attributable to owners of the Company		**7,445,489**	7,380,207
Non-controlling interests		**372,762**	433,761
Total equity		**7,818,251**	7,813,968
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**2,737,118**	6,151,564
Deferred tax liabilities		**1,498,997**	1,447,258
		4,236,115	7,598,822
Current liabilities			
Interest-bearing bank and other borrowings		**4,905,884**	2,447,238
Advances received from the pre-sale of properties under development		–	1,015,262
Contract liabilities		**420,959**	–
Trade payables	*12*	**609,853**	703,382
Other payables and accruals		**2,041,820**	1,893,378
Current income tax liabilities		**857,364**	913,269
		8,835,880	6,972,529
Total liabilities		**13,071,995**	14,571,351
Total equity and liabilities		**20,890,246**	22,385,319

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

For the year ended 31 December 2018 (Amounts presented in thousands of Renminbi unless otherwise stated)

1. BASIS OF PREPARATION

The annual results set out in this announcement do not constitute the consolidated financial statements of SRE Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 but are extracted from those financial statements, which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments and financial assets at fair value through other comprehensive income which have been measured at fair value. The consolidated financial statements are presented in thousands of Renminbi ("RMB") unless otherwise stated.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Going concern basis

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB 345.1 million. At the same date, the Group's current liabilities included RMB 4,905.9 million of current borrowings out of which RMB3,366.1 million were immediately repayable or payable on demand. In addition, the Group's cash and cash equivalents decreased from RMB 1,207.1 million as at 31 December 2017 to RMB 698.6 million as at 31 December 2018. During the year then ended, the financial conditions of certain related parties of the Group changed in such a way that triggered certain terms specified in the Group's loan agreements, and this resulted in certain of the Group's borrowings amounting to RMB 714 million in total as at 31 December 2018 becoming immediately repayable, so that RMB 614 million originally scheduled due beyond 31 December 2019 were reclassified as current borrowings.

In view of such circumstance, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient funds to fulfill its financial obligations and continue as going concern. The Group has taken the following measures to mitigate the liquidity pressure and to improve its cash flows.

1) Included in current borrowings a total of RMB 2,652.1 million are loans from parent company and a fellow subsidiary of the Group (altogether "shareholder loans"), which were due for repayment or payable on demand as at 31 December 2018. Subsequent to 31 December 2018, the Group has reached written agreements with the respective related parties as follows:

    - shareholder loans of US$ 150 million (equivalent to approximately RMB 1,015.7 million) were renewed, and the repayment date is extended to 30 June 2020, with an interest rate increase from 4% to 6% per annum;

    - the repayments of remaining shareholder loans which are due for repayment within one year or payable on demand by lenders, totalling RMB 1,636.4 million were unconditionally extended to dates at least after 15 months from 31 December 2018.

2) The Group has been continuously negotiating with certain banks for renewal of its existing bank loans that would be due for repayment in 2019. These existing bank loans have sufficient pledges on certain property development projects and existing completed leasing and operating properties. The Group plans to continue to pledge these assets for renewal of at least about RMB 600 million. The Group is also actively negotiating with several banks for grant of new loans, offering a sufficient pledge of assets and at a reasonable cost. Certain banks have indicated its intention to renew or grant of new loans. Considering the Group's ability in providing sufficient pledges of properties and other assets, and the Group's good credit history, the directors believe that the Group will be able to renew the existing loans, as well as to secure new bank loans at a reasonable cost.

3) In addition, the Group is working with certain financial institutions for alternative financing so as to replace existing other current loans for a size around RMB 400 million. Considering the Group's good credit history, the directors are confident that the Group will be able to secure new alternative financing at a reasonable cost.

4) The Group is also speeding up its divestments on its financial assets investments, its investment in certain property assets and its equity holding in certain joint venture and associated companies following its certain strategic change. Subsequent to 31 December 2018, the Group has achieved certain progress in this aspect:

- secured certain deals in divestment of financial assets and property investments with agreements and framework agreements, at a consideration of RMB 600 million in total, RMB 200 million of which have been received in cash by the date of issurance of these financial statements, and the Group expects to collect the remaining in next few months according to the scheduled settlement dates.

- reached intention agreements or well progressed in negotiations with specific counterparties for divestment of certain property projects and certain financial assets, at a consideration of RMB 1.1 billion in total. The Group expects to reach final agreements of these transactions in the next few months and recover a significant portion of the consideration in cash by the end of 2019.

Considering the Group's financial assets investments mostly have property projects as underlying assets, and our own property projects are mostly in prime locations, the directors believe that the Group will be able to successfully complete the above-mentioned divestments and secure more deals in 2019 and timely generate cash inflows for the Group.

Management has prepared the Group's cash flow forecast which cover a period of at least 12 months from 31 December 2018. The cash flow forecast has taken into accounts the anticipated cash flows generated from the Group's operations, the completion of divestment transactions which are currently at different stages, the successful renewal or extension of existing borrowings and obtaining of new borrowings, and collection of relevant proceeds on time. These assumptions about future events and conditions are subject to inherent estimation and uncertainties. The directors, after making due enquiries and consider the basis of management's projections described above, believe that, taking into account the above mentioned actions and planned measures and their progress, the Group will have sufficient funds to finance its operations and to meet its financial obligations when they fall due within the next 12 months from 31 December 2018. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(i) New standards, amendments and interpretation of HKFRSs adopted by the Group in 2018

The Group has adopted the following new standards, amendments and interpretation of HKFRSs effective for the financial year ended 31 December 2018.

- HKFRS 9 "Financial Instruments"

- HKFRS 15 "Revenue from Contracts with Customers"

- Amendments to HKFRS 2 regarding classification and measurement of share-based payments transactions

- Amendments to HKAS 28 regarding the election to measure on an associate or a joint venture at fair value through profit or loss

- Amendments to HKAS 40 regarding transfers of investment property

- HK (IFRIC) 22 "Foreign Currency Transactions and Advance Consideration"

The adoption of the above new standards, amendments and interpretation of 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.

(ii) Impact on the financial statements

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**	**HKFRS9**	**HKFRS15**	**1 January 2018** *(Restated)*
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

(iii) 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:

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

Investments related to a loan with variable return granted 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.

(b) 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 RMB5,237,000 for other receivables, other financial assets at amortised cost and other non-current assets during the year ended 31 December 2018.

(iv) 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.

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.

3. OPERATING SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. The Board monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. The Board has determined the operating segments based on the Group's products and services. 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 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 at the then prevailing market prices.

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 provision of property management services.

An analysis by operating segment is as follows:

	2018			
	Property development	**Property leasing**	**Other operations**	**Total**
Segment revenue				
Sales to external customers	**1,269,753**	**160,171**	**121,385**	**1,551,309**
Intersegment sales	**–**	**–**	**49,972**	**49,972**
	1,269,753	**160,171**	**171,357**	**1,601,281**
Reconciliation:				
Elimination of intersegment sales				**(49,972)**
Revenue				**1,551,309**
Segment profit	**366,603**	**143,154**	**85,077**	**594,834**
Finance income				**70,350**
Finance costs				**(547,406)**
Finance costs – net				**(477,056)**
Share of results of associates				**72,033**
Share of results of joint ventures				**17,672**
Profit before income tax				**207,483**

	2018			
	Property development	**Property leasing**	**Other operations**	**Total**
Segment assets and liabilities				
Segment assets	**5,361,440**	**4,856,819**	**5,740,875**	**15,959,134**
Investments in associates				**1,105,416**
Investments in joint ventures				**3,825,696**
Total assets				**20,890,246**
Segment liabilities	**5,199,620**	**2,149,162**	**5,723,213**	**13,071,995**
Total liabilities	**5,199,620**	**2,149,162**	**5,723,213**	**13,071,995**
Other segment information:				
Depreciation and amortisation	**1,316**	**305**	**28,893**	**30,514**
Capital expenditure*	**827**	**214**	**1,649**	**2,690**
Net fair value gain on investment properties	**–**	**(45,956)**	**–**	**(45,956)**
Reversal of impairment of properties held or under development for sale	**(69,813)**	**–**	**–**	**(69,813)**
Reversal of impairment of prepaid land lease payments	**(158,748)**	**–**	**–**	**(158,748)**
Provision for impairment of trade receivables	**172**	**–**	**–**	**172**
Provision for impairment of other financial assets at amortised cost	**–**	**–**	**4,365**	**4,365**
Provision for impairment of other receivables	**–**	**–**	**6,729**	**6,729**
Provision for impairment of other non-current assets	**–**	**–**	**210**	**210**

* Capital expenditure consists of additions of property, plant and equipment (RMB2,505 thousand) and additions in cost of investment properties (RMB185 thousand).

	2017			
	Property development	Property leasing	Other operations	Total
Segment revenue				
Sales to external customers	1,382,707	151,644	86,122	1,620,473
Intersegment sales	–	–	31,780	31,780
	1,382,707	151,644	117,902	1,652,253
Reconciliation:				
Elimination of intersegment sales				(31,780)
Revenue				1,620,473
Segment profit	188,911	169,424	904,269	1,262,604
Finance income				57,153
Finance costs				(504,051)
Finance costs – net				(446,898)
Share of results of associates				74,332
Share of results of joint ventures				(12,049)
Profit before income tax				877,989

	2017			
	Property development	Property leasing	Other operations	Total
Segment assets and liabilities				
Segment assets	6,902,527	5,007,228	5,413,719	17,323,474
Investments in associates				1,043,140
Investments in joint ventures				4,018,705
Total assets				22,385,319
Segment liabilities	6,315,608	2,281,759	5,973,984	14,571,351
Total liabilities	6,315,608	2,281,759	5,973,984	14,571,351
Other segment information:				
Depreciation and amortisation	1,689	70	29,851	31,610
Capital expenditure*	132	987	2,753	3,872
Net fair value gain on investment properties	–	(55,165)	–	(55,165)
Impairment of investment in a joint venture	–	–	27,882	27,882
Write-down of properties held or under development for sale	1,663	–	–	1,663
Reversal of impairment of prepaid land lease payments	(156,850)	–	–	(156,850)
Provision for impairment of trade receivables	1,038	–	359	1,397
Provision for impairment of loans and receivables	120,006	–	–	120,006
Provision for impairment of other receivables	175,912	–	–	175,912

* Capital expenditure consists of additions of property, plant and equipment (RMB2,973 thousand) and additions in cost of investment properties (RMB899 thousand).

Geographical information

(a) For the year ended 31 December 2018: 96% (2017: 96%) of the sales to external customers of the Group are generated from Mainland China.

(b) Non-current assets

As of 31 December 2018, more than 83% (2017: more than 92%) of the Group's non-current assets (based on the locations of the assets and excludes financial instruments and deferred tax assets) were located in Mainland China.

Information about major customers

The Group's customers from whom the revenue is derived are widely dispersed. No customer or a single group of customers which are known to be under common control contributed 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017.

4. REVENUE

An analysis of revenue is as follows:

	2018	2017
Revenue from sale of properties	**1,280,765**	1,394,541
Revenue from property leasing	**161,785**	153,370
Revenue from property management	**18,311**	14,888
Revenue from construction of infrastructure for an intelligent network	**4,985**	8,890
Other revenue	**99,611**	62,949
	1,565,457	1,634,638
Less: Tax and surcharges (a)	**(14,148)**	(14,165)
Total revenue	**1,551,309**	1,620,473

(a) Tax and surcharges

Prior to 1 May 2016, business tax was calculated at 5% of the revenue from the sale of properties, 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.

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:

- Pursuant to the 'Circular on Adjustment of Tax Rate of Value Added Tax' (Cai Shui [2018] 32) jointly issued by the Ministry of Finance and the State Administration of Taxation, the applicable tax rate of revenue arising from sale and lease of properties is 10% from 1 May 2018, while it was 11% before then. 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%.

- Pursuant to the 'Circular on Adjustment of Tax Rate of Value Added Tax' (Cai Shui [2018] 32) jointly issued by the Ministry of Finance and the State Administration of Taxation, the applicable tax rate of revenue arising from construction of infrastructure for an intelligent network is 10% from 1 May 2018, while it was 11% before then.

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.

5. EXPENSES BY NATURE

An analysis of expenses by nature is as follows:

	2018	2017
Cost of inventories sold (excluding depreciation, (reversal of impairment)/ write-down of properties held or under development for sale and prepaid land lease payments)	**1,263,259**	1,351,410
Depreciation of items of property, plant and equipment	**26,097**	27,254
Employee benefit expense (including directors' and chief executive officer's emoluments, excluding those capitalised in property under development)	**105,454**	226,011
(Reversal of impairment)/write-down of properties held or under development for sale	**(69,813)**	1,663
Reversal of impairment of prepaid land lease payments	**(158,748)**	(156,850)
Professional service fees	**67,035**	80,852
Agent and sale commission for sale of properties	**27,800**	29,262
Operating lease payments in respect of buildings	**15,500**	7,228
Auditors' remuneration (*)		
– Annual audit services	**4,900**	4,900
– Non-audit services	**–**	250
Advertising costs	**5,540**	7,889
Miscellaneous tax	**20,196**	28,163
Transportation fee	**9,538**	11,475
Office expenses	**8,223**	10,819
Water and electricity costs	**6,668**	5,115
Provision for impairment of other receivables	**6,729**	175,912
Provision for impairment of trade receivables	**172**	1,397
Provision for impairment of other financial assets at amortised cost/ loans and receivables	**4,365**	120,006
Provision for impairment of other non-current assets	**210**	–
Others	**32,363**	37,778
	1,375,488	1,970,534

* Auditors' remuneration for 2017 included non-audit service fees of RMB250 thousand in respect of services for circulars issued in 2017. In 2018, no non-audit service fee was incurred.

6. GAINS FROM DISPOSAL OF SUBSIDIARIES AND INTERESTS IN A JOINT VENTURE – NET

	2018	2017
Gains from disposal of subsidiaries – net (a)	**239,618**	1,569,073
Gains from disposal of interests in a joint venture	**3,282**	16,849
	242,900	1,585,922

(a) In April 2018, a third party injected capital to Changsha Horoy Real Estate Co., Ltd. ("Changsha Horoy"), which was a subsidiary of the Group, and thus the Group's equity interest in Changsha Horoy was diluted from 66.5% to 49.5%. As such, the Group lost control and Changsha Horoy became a joint venture of the Group after the transaction. On the disposal date, the net asset value attributable to the Group of Changsha Horoy was approximately RMB-13 million. After the dilution of 17% equity interest in Changsha Horoy, the 49.5% remaining interest held by the Group was remeasured at its fair value of approximately RMB226 million on the date when control was lost, and the difference with its then carrying amount was approximately RMB239 million. As such, the Group recorded a gain on disposal of approximately RMB239 million.

In June 2018, the Group disposed 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 July 2018, the Group disposed of its 100% equity interest in Shanghai Xunbo Construction Co., Ltd. ("Xunbo Construction") at a consideration of approximately RMB0.75 million. On the disposal date, the net asset value attributable to the Group of Xunbo Construction was approximately RMB0.75 million. The Group recorded a loss on disposal of RMB277.

In April 2017, the Group disposed of 49% of its equity interest in Shanghai Jinxin Real Estate Co., Ltd. ("Jinxin Real Estate") to Shanghai Zhongchong Binjiang Industry Co., Ltd. and lost control in the originally wholly-owned subsidiary. Jinxin Real Estate became a joint venture of the Group after the transaction. On the disposal date, the net asset value of Jinxin Real Estate amounted to approximately RMB3,082 million, and the fair value of 51% equity interest in Jinxin Real Estate determined based on the fair value of the net asset of Jinxin Real Estate amounted to approximately RMB2,112 million. After the disposal of 49% equity interest in Jinxi Real Estate, the 51% remaining interest held by the Group was remeasured at its fair value of approximately RMB2,112 million on the date when control was lost, and the difference with its then carrying amount of approximately RMB540 million was recognised as part of disposal gain. The consideration in relation to the 49% equity interest in Jinxin Real Estate was approximately RMB2,112 million. As such, the Group recorded a gain on disposal of approximately RMB1,142 million.

In July 2017, the Group disposed of its 100% equity interest held by Wuxi Zhongqing Real Estate Co., Ltd. ("Wuxi Zhongqing") in Wuxi Yongqing Real Estate Co., Ltd. ("Wuxi Yongqing") at a consideration of approximately RMB67 million. On the disposal date, the net asset value attributable to the Group of Wuxi Zhongqing was approximately RMB17 million. The Group recorded a gain on disposal of approximately RMB50 million.

In August 2017, the Group disposed of 50% out of its 70% equity interest in Shanghai Real Estate Asset Management Co. Ltd ("SRE Asset") at a consideration of nil. SRE Asset became an associate of the Group after the transaction. On the disposal date, the net asset value attributable to the Group of SRE Asset was approximately RMB5 million. The Group recorded a gain on disposal of approximately RMB2 million.

In September 2017, the Group disposed of its 100% equity interest held by Shanghai Wingo Infrastructure Co., Ltd in Shanghai Shanghui Construction Co., Ltd. ("Shanghui Construction") at a consideration of approximately RMB5.8 million. On the disposal date, the net asset value attributable to the Group of Shanghui Construction was approximately RMB-73 million. The Group recorded a gain on disposal of approximately RMB79 million.

In December 2017, the Group disposed of its 100% equity interest held by Shanghai Oasis Garden Real Estate Co., Ltd. and Lihon Investment Limited in Shenyang Lukang Real Estate Ltd. ("Shenyang Lukang") at a consideration of RMB2. On the disposal date, the net asset value attributable to the Group of Shenyang Lukang was approximately RMB-296 million. The Group recorded a gain on disposal of approximately RMB296 million. As of 31 December 2017, the Group has not collected approximately RMB700 million loans and approximately RMB176 million receivables from Shenyang Lukang. The Group estimated that it would be able to collect the loan of approximately RMB580 million considering the assets held by Shenyang Lukang. As there is uncertainty in the collection of the portion of loans of approximately RMB120 million and the receivables of approximately RMB176 million, a loss of approximately RMB296 million was recognised.

7. INCOME TAX EXPENSE/(CREDIT)

An analysis of income tax is as follows:

	2018	2017
Current taxation		
– Mainland China income tax (a)	**28,045**	48,981
– Mainland China LAT (c)	**28,345**	(77,135)
	56,390	(28,154)
Deferred taxation		
– Mainland China income tax	**45,977**	184,708
– Mainland China LAT	**3,233**	(2,306)
– Mainland China withholding tax (d)	**3,037**	3,437
	52,247	185,839
Total tax charge for the year	**108,637**	157,685

(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. The outstanding balance recorded in "prepaid income tax" was approximately RMB57 million as at 31 December 2018 (2017: approximately RMB50 million). 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 jurisdictions 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 year (2017: Nil).

(c) Mainland China land appreciation tax ("LAT")

LAT is incurred upon transfer of property and land 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 from the sale and pre-sale of properties. Prepaid LAT has been recorded in "prepaid income tax" with an amount of approximately RMB46 million as at 31 December 2018 (2017: approximately RMB46 million). Such prepaid taxes are initially recorded in the statement of financial position and later released to profit or loss upon revenue recognition. The credit to the statement of profit or loss and other comprehensive income in 2017 was due to the reversal of provision upon the final assessment of LAT for certain projects.

(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 Mainland China and on gain from disposal of equity interests to non-tax resident enterprises. 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 retained profits as at 31 December 2007 are exempted from withholding tax.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to owners of the Company	**113,530**	690,543
Weighted average number of ordinary shares in issue (thousands)	**20,564,713**	20,564,713

(b) Diluted

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 annual market shares 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 year ended 31 December 2018 and 2017, as the average annual 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.

9. DIVIDENDS PAID AND PROPOSED

The Board of Directors has resolved not to recommend the payment of final dividend in respect of the year ended 31 December 2018 (2017: nil).

10. OTHER FINANCIAL ASSETS AT AMORTISED COST/LOANS AND RECEIVABLES

Other financial assets at amortised cost include the following debt investments:

	2018			2017		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Loans to related parties (a)	**1,626,627**	**–**	**1,626,627**	1,172,011	–	1,172,011
Loans to a disposed subsidiary (a)	**–**	**700,000**	**700,000**	–	700,000	700,000
Other receivables (a)	**20,000**	**–**	**20,000**	20,000	–	20,000
	1,646,627	**700,000**	**2,346,627**	1,192,011	700,000	1,892,011
Less: Loss allowances for debt investments at amortised cost (b)	**(35,616)**	**(125,574)**	**(161,190)**	(20,000)	(120,006)	(140,006)
	1,611,011	**574,426**	**2,185,437**	1,172,011	579,994	1,752,005

(a) The balance as at 31 December 2018 mainly represented the interest-bearing loans granted to related parties of approximately RMB1,627 million (2017: a related party of approximately RMB1,172 million) with a provision of approximately RMB16 million (2017: nil), to a disposed subsidiary of approximately RMB700 million (2017: approximately RMB700 million) with a provision of approximately RMB126 million (2017: approximately RMB120 million), and to certain third parties.

(b) The provision was made as at December 2018 as the directors of the Group consider the recoverability of certain receivables is uncertain.

11. TRADE RECEIVABLES

	2018	2017
Trade receivables	**44,999**	52,281
Less: Provision for impairment	**(28,015)**	(27,843)
	16,984	24,438

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

	2018	2017
Within 6 months	**6,666**	18,056
6 months to 1 year	**5,504**	6,382
1 to 2 years	**5,610**	–
Over 2 years	**27,219**	27,843
	44,999	52,281

The Group's sales of development properties are generally on a cash basis while the Group's trading terms with its customers for other operations are mainly on credit. The credit terms of the Group are generally within six months.

The Group's trade receivables are related to a large number of diversified customers. There is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables neither past due nor impaired and those past due but not impaired is as follows:

	2018	2017
Neither past due nor impaired	**11,451**	17,809
Past due but not impaired:		
Within 30 days	**–**	247
31 to 60 days	**–**	–
61 to 90 days	**–**	–
91 to 120 days	**–**	–
Over 121 days	**5,533**	6,382
	5,533	6,629
	16,984	24,438

Receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movements in the provision for impairment of trade receivables are as follows:

	2018	2017
At beginning of year	**27,843**	26,805
Additions	**414**	1,397
Reversals	**(242)**	–
Disposal of subsidiaries	**–**	(359)
At end of year	**28,015**	27,843

12. TRADE PAYABLES

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

	2018	2017
Within 1 year	**343,385**	467,638
1 to 2 years	**102,312**	48,693
Over 2 years	**164,156**	187,051
	609,853	703,382

Trade payables represent payables arising from property construction and land development. The trade payables are non-interest-bearing and are normally settled within one year.

BUSINESS REVIEW

In 2018, the real estate regulation and control was normalized; local real estate regulatory policies were extensively introduced with equal stresses on enhancement and coverage expansion; domestic structural de-leverage was steadily advanced; the property market funding was tight; channels were narrowed; and financing costs were significantly improved. In 2018, the growth of commercial housing sales in the industry declined as compared with last year. The sales area and amount increased slightly as compared with last year, and the return from housing enterprises was generally facing greater pressure. Facing the pressure of the external 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 stream 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 to exit the non-strategic projects. In 2018, 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; the Shanghai project in the Beijing, Shanghai and Shenzhen Asset Package was transferred at a high premium; the Changsha Project attracted additional investment at a premium; sale and purchase 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 "real estate + industry" model.

In 2018, the Group's major projects available for sale were Shanghai Xiangzhang Garden, Shanghai Albany Oasis Garden, Jiaxing Project, Shanghai Huating Project, Chengdu Albany Oasis Garden, Shenyang Albany Garden and the Atelier. In 2018, the Group together with its joint ventures and associates had contracted sales amounting to approximately RMB3.266 billion, with a total gross floor area of approximately 87,239 m^2.

Project	**Monetary Amount of Sales Contracts Signed** *(RMB'000)*	**Contractual Gross Area** *(m^2)*
Shanghai Xiangzhang Garden	1,809,000	37,061
Shanghai Albany Oasis Garden	760,090	9,398
Jiaxing Project	258,937	25,243
Shanghai Huating Project,	129,947	1,270
Chengdu Albany Oasis Garden	128,958	6,036
Shenyang Albany Garden	113,943	7,318
Other projects	64,891	913
Total	3,265,766	87,239

In 2018, the Group recorded net revenue of approximately RMB1.551 billion (2017: RMB1.620 billion). Gross profit for 2018 amounted to approximately RMB474 million (2017: RMB384 million).

Net revenue breakdown:

Revenue	**2018** *(RMB'000)*	2017 *(RMB'000)*
Revenue from sale of properties	**1,280,765**	1,394,541
Revenue from property leasing	**161,785**	153,370
Revenue from property management	**18,311**	14,888
Revenue from construction of infrastructure for an intelligent network	**4,985**	8,890
Other revenue	**99,611**	62,949
	1,565,457	1,634,638
Less: Tax and surcharges	**(14,148)**	(14,165)
Total revenue	**1,551,309**	1,620,473

DEVELOPMENT PROJECTS

Our development projects mainly included Shanghai Rich Gate I, Shenyang Albany Garden, Chengdu Albany Oasis Garden, Changsha Fudi Albany Project, Jiaxing Project, Dalian Oasis City Garden and the Atelier.

Progress of Relocation

Shanghai Rich Gate I (Qinhai Oasis Garden)

As at the end of 2018, contracts were signed for 911 certificates of households (including certificates of individuals) in aggregate, representing a signing rate of 90%; 757 certificates of households (including certificates of individuals) were relocated in aggregate, representing a relocating rate of 75%; contracts were re-signed for 702 certificates of households (including certificates of individuals) in aggregate, representing a re-signing rate of 70%. 19 certificates of enterprises were relocated and settled, accounting for 49% of the total 39 certificates. The first batch of expropriation compensation notices were issued four months in advance before the proposal of project. As at the end of the year, expropriation compensation notices were issued to 168 households, effectively promoted the expropriation work.

Shenyang Albany Garden

In 2018, relocation contracts were signed with 38 households. The signing rate of households was approximately 99%, while signing rate of enterprises and schools was 96%.

Changsha Fudi Albany Project

As of the end of 2018, the project positioning and planning plan has been completed and is currently undergoing approval. There were 99 households in the land area of the project. Signing rate reached 100% for the year; 100% households were demolished; completion rate of tomb relocation was 72.5%.

Dalian Oasis City Garden

The project is located in Wafangdian City and is divided into 9 sections. As of the end of 2018, the Steel Square and the Auto Square have been demolished; contracts for the mobile base station has been signed off; compensation agreements for transfer of land has been signed; the relocation work has been completed and the cost for relocation was well controlled.

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 residents of 930 households. As of the end of 2018, signing rate was approximately 60.3% in aggregate and 60.1% of relocation was completed.

Progress of Construction

Chengdu Albany Oasis Garden

In 2018, for Phase II of Chengdu Albany Oasis Garden, construction of Blocks No. 3, 4, 5 and 6 were completed in advance, among which, Blocks No. 5 and 6 launched successfully while interior refined decoration for Blocks No. 3 and 4 has started.

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 planning proposal approval, with plot ratio-based area of approximately 21,600 m^2, including residential area of approximately 206,000 m^2 and commercial area of approximately 10,000 m^2.

Jiaxing Project

The saleable area of Jiaxing Project Lanwan Phase II is approximately 53,000 m^2, including residential gross floor area of approximately 43,000 m^2. The project obtained a construction permit in 2018 and is currently undergoing a basement project.

75 Howard Project in the USA

75 Howard Project in the USA is located in the CBD of the northeast corner of San Francisco, adjacent to the Harbour Bridge. The project has a total saleable area of approximately 20,000 m^2 and is planned to be 120 high end apartments. A groundbreaking ceremony for the project was successfully held in 2018, reported by mainstream media such as Forbes, and is currently undergoing pile foundation engineering work.

The Atelier in the UK

The Atelier in UK is located at Kensington, London, with 43 saleable units and saleable area of 3,259 m^2. The basement project has been completed in 2018 and is expected to be delivered smoothly in 2019.

Land Bank

As at 31 December 2018, the Group owned a land bank with a total gross floor area of approximately 2.11 million m^2 in Shanghai, Shenyang, Chengdu, Changsha, Jiaxing, Dalian, London, San Francisco, etc. The Company stays abreast of industry development dynamics, explores its own resources and advantage and is committed to discovering assets which are underestimated or with growth potential.

COMMERCIAL PROPERTY OPERATION

In 2018, the Group expanded its marketing and investment channels, increased the introduction of well-known brands, and controlled ineffective cost expenditure to continuously improve operating income.

Oasis Central Ring Centre

As a landmark of the Shanghai Central Ring business district, the Oasis Central Ring Centre, with its high quality Grade 5A office buildings well equipped with all sorts of ancillary facilities, has attracted an increasing number of enterprises to move in. In 2018, the occupancy rate of Oasis Central Ring Centre reached 100%, and the operating revenue was RMB42.38 million.

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall is committed to become a one-stop integrated center with business, leisure and life elements, accommodating for shopping, leisure & entertainment, and food & beverage needs and requirements. The project continued to make tremendous efforts in attracting tenants. In 2018, the leased area reached 77,000 m^2 in aggregate, and the operating income reached RMB39.35 million.

41 Tower Hill Project in the UK

The project is located at 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 building has a floor area of 15,509 m^2 and gross floor area of 21,189 m^2. The office building is leased to Société Générale for a term of about 3 years expiring in March 2020. At present, the direction of the modification has been determined, and it is planned that slight renovation and modification will be made to the project.

12 Moorgate Project in the UK

The project is located in the core district of the City of London, 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 for office use. At present, a lease intention has been made with the new tenant.

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. The project has a total area of 16,327 m^2, saleable area of approximately 90,000 m^2, including residential of approximately 80,000 m^2 and ancillary commercial of approximately 10,000 m^2. The project was signed at the beginning of 2018, and achieved high turnover as sales were launched in the same year when the project was acquired.

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 RMB300 million over the listed price. As at the end of 2018, all funds have been recovered and transfer has been completed.

Caolu Project

In July 2016, the Group acquired the debenture of Caolu assets package with RMB205 million. After the acquisition, the Group continued to negotiate with the actual controller for cooperation and contact potential buyers for the debenture. At the end of 2018, it was transferred at RMB308 million with a price premium, demonstrating on successful implementation of the "real estate – financial" model.

The UK Projects

The UK Projects were acquired in 2016. In 2018, after several rounds of negotiations with the partners, the partial exit was successfully achieved.

MAJOR TRANSACTIONS

1. On 19 April 2018 (after trading hours), SRE Jiaye Real Estate Development (Shanghai) Co., Ltd. (上置嘉業房地產發展(上海)有限公司), an indirect wholly-owned subsidiary of the Company, entered into the Loan Receivable Transfer Agreement with Shanghai Dai Yong Industrial Co., Ltd. (上海戴永實業有限公司), pursuant to which SRE Jiaye Real Estate Development (Shanghai) Co., Ltd. agreed to sell, and Shanghai Dai Yong Industrial Co., Ltd. agreed to acquire, the loan receivables at the consideration of RMB330,000,000 which shall be settled by Shanghai Dai Yong Industrial Co., Ltd. by stage payments in cash. Further details are set out in the announcement of the Company dated 19 April 2018.

2. On 3 May 2018, Sinopower Investment Limited (華通投資有限公司) (a direct wholly-owned subsidiary of the Company), Ronghe International Group Limited (榮和國際集團有限公司) (an Independent Third party) and Profit Concept Investments Limited (潤斯投資有限公司) (an indirect wholly-owned subsidiary of the Company on 3 May 2018) entered into the Agreement, pursuant to which Sinopower Investment Limited agreed to sell, and Ronghe International Group Limited agreed to purchase, the Shares and the Loan for a total consideration of approximately £29,475,967.30. Further details are set out in the announcement of the Company dated 3 May 2018.

3. On 15 May 2018 (after trading hours), Shangzhi Asset Management (Shanghai) Co., Ltd. (上置資產管理(上海)有限公司) (a connected person of the Company at the subsidiary level), Shanghai Yidong Investment Management Co., Ltd. (上海意動投資管理有限公司) (an indirect wholly owned subsidiary of the Company), the Company and Shanghai Lake Malaren Hospital Investment Co., Ltd. (上海美蘭湖醫院投資有限公司) (an indirect non-wholly owned subsidiary of the Company) entered into the Capital Injection Agreement, pursuant to which Shangzhi Asset Management (Shanghai) Co., Ltd. has agreed to contribute RMB150 million to the registered capital of Shanghai Lake Malaren Hospital Investment Co., Ltd.. Further details are set out in the announcements of the Company dated 15 May 2018 and 4 June 2018.

4. On 28 June 2018 (after trading hours), Shanghai Jinxin Real Estate Co., Ltd. (上海金心置業有限公司) (a non-wholly owned subsidiary of the Company) entered into the Agreements with, among others, Shanghai Xiangfu Real Estate Development Co., Limited (上海湘府房地產開發有限公司) (a connected person of the Company) pursuant to which, among other things, Shanghai Xiangfu Real Estate Development Co., Limited agreed to sell and Shanghai Jinxin Real Estate Co., Ltd. agreed to purchase 33 units of relocation and resettling properties situated at 2289 Wan Yuan Road, Minhang District, Shanghai, with a total gross floor area of 2,547.04 m^2, at the purchase price of RMB127,554,308.37. The acquisition is for the purpose of relocating and resettling the incumbent residents affected by the development of the Daxing Project by Shanghai Jinxin Real Estate Co., Ltd.. Further details are set out in the announcement of the Company dated 28 June 2018.

5. On 5 December 2018 (after trading hours), Shanghai Oasis Garden Real Estate Co., Ltd. (上海綠洲花園置業有限公司) (a subsidiary of the Company), China Aviation Trust Co., Ltd. (中航信託股份有限公司) and the Joint Venture entered into the Transfer Agreement pursuant to which Shanghai Oasis Garden Real Estate Co., Ltd. agreed to sell and China Aviation Trust Co., Ltd. agreed to purchase the interest at a consideration of RMB500 million. Further details are set out in the announcement of the Company dated 5 December 2018.

THE GROUP'S AWARDS

1. Blocks 3 and 10 of Oasis Central Ring Centre in Shanghai won the title of "2018 Building Contributing Tax of RMB100 Million in Putuo District".

2. Shanghai Jinwu Real Estate Co., Ltd. won the first prize of Contribution to Regional Development of Putuo District, Shanghai in 2018.

3. Jiaxing Project won the "Amber House in Jiaxing Lake" at the 2018 Jiaxing Real Estate Annual Festival.

4. Shanghai Lake Malaren Obstetrical and Gynecological Hospital won the title of "Top 50 Civilization Window" at the first Import Expo.

5. Shanghai Lake Malaren Obstetrical and Gynecological Hospital won the "Excellent Service Award" by the Mother and Baby Union.

6. Shanghai Lake Malaren Obstetrical and Gynecological Hospital won the "Golden Rose Wedding Industry Innovation Award" at the 2018 China-Shanghai the Second International Wedding Fashion Week.

BUSINESS OUTLOOK

Looking forward to the future development of the property market, "Houses are for living in, not for speculation" has become a market consensus, and it is expected that the market regulation policy will not relax, the refined adjustment of "Targeted policy for specific city "will continue, and the level of increase in housing prices will gradually be stabilized. At the same time, with the reserve requirement ratio cuts at the beginning of the year, it is expected that the financial environment in 2019 will be relaxed, but it is estimated that more funds will flow to the non-real estate sector, and real estate financing will still be difficult, and financing costs will still be higher. Market adjustment of the first and second-tier cities will gradually spread to the third and fourth-tier cities. In particular, some cities are affected by the gradual exit of monetized resettlement compensation, but it is expected that market in general will be stabilized during the adjustment. In general, 2019 will still be another difficult year for real estate enterprises, but opportunities will be created under difficulties. In 2019, the Group will further adhere to the dual drive model of real estate development and real estate investment. In terms of project development, the Group has to improve development and operational efficiency; in terms of real estate investment, capacity building and implementation of all aspects of financing, investment, management and withdrawal have to be strengthened.

FINANCIAL REVIEW

Revenue and profit attributable to shareholders

In 2018, the Group recorded net revenue of approximately RMB1,551 million (2017: RMB1,620 million), which represents a decrease by approximately 4% compared with that of 2017. Profit attributable to owners of the Company in 2018 was approximately RMB114 million while profit attributable to owners of the Company in 2017 was approximately RMB691 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 year. Despite the decrease in profit attributable to the owners of the Company, as the Group strengthened its cost control during the year, the Group recorded an increase in gross profit from real estate development and a decrease in administrative expense during the year as compared with the corresponding period of last year.

Dividend

The Board has resolved not to recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: Nil).

Financial Resources and Liquidity

As at 31 December 2018, cash and bank balances (including cash and cash equivalents and restricted cash) amounted to approximately RMB701 million (2017: RMB1,453 million). Working capital (net current assets) of the Group as at 31 December 2018 amounted to approximately RMB-345 million (2017: RMB1,976 million), representing a decrease of 117% as compared with the preceding year, and the current ratio was approximately 0.96x (2017: 1.28x).

As at 31 December 2018, the Group's total liabilities to total equity decreased to 1.67x (2017: 1.86x). As at 31 December 2018, the Group's gearing ratio was approximately 47% (2017: 48%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balances of approximately RMB701 million) over total capital (total equity and net borrowings).

EMPLOYEES

As at 31 December 2018, the Group had 482 (2017: 517) employees in Hong Kong and the People's Republic of China. Total staff costs of the Group, excluding Directors' remuneration, for the year 2018 amounted to approximately RMB82 million (2017: RMB211 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of each individual employee.

Charges on Assets and Contingent Liabilities

As at 31 December 2018, total bank and other borrowings of approximately RMB3,504 million (2017: RMB3,740 million) were secured by pledge of the Group's assets including leasehold land, investment properties, property, plant and equipment, properties held or under development for sale, or by pledge of equity interests in certain subsidiaries or 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 relevant mortgage loans are granted by the banks and end when the purchasers pledge related property ownership certificates as security to the banks offering the mortgage loans. The Group entered into guarantee contracts of principal amounts totalling approximately RMB375 million and these contracts were still effective as at the close of business on 31 December 2018.

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 year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Board had reviewed its corporate governance practices throughout the year ended 31 December 2018, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the following deviations:

Code Provision A.2.7

Code provision of A.2.7 requires the Chairman of the Board to hold meetings at least annually with the non-executive directors (including independent non-executive directors) without the executive directors present. As the Chairman of the Board is also an Executive Director, the Company has technically deviated from this code provision.

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.

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 Listing Rules. Specific enquiry has been made of all Directors and all of them have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and financial reporting matters including a review of the annual results of the Group for the year ended 31 December 2018.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement of the Company is published on the websites of the Company (http://www.equitynet.com.hk/sre) and Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk). The annual report of the Company for 2018 containing all the information required by 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, 28 March 2019

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. 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*