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 2019

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2019
Revenue (RMB'000)	469,700
Loss attributable to owners of the Company (RMB'000)	(199,175)
Basic loss per share (RMB cents)	(0.97)
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 2019 together with comparative figures for the previous corresponding period in 2018. The unaudited interim financial information for the six months ended 30 June 2019 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 2019

(Amounts presented in thousands of Renminbi unless otherwise stated)

		For the six months ended 30 June	
		2019	2018
	Notes	**Unaudited**	Unaudited
Revenue	*3*	**469,700**	810,649
Cost of sales		**(362,174)**	(406,216)
Gross profit		**107,526**	404,433
(Losses)/gains from disposal of subsidiaries and partial interest in a joint venture – net	*4*	**(17)**	223,307
Net impairment losses on financial assets		**(50,970)**	(4,342)
Other gains – net		**14,807**	3,650
Selling and marketing expenses		**(17,944)**	(19,322)
Administrative expenses		**(105,928)**	(138,626)
Operating (loss)/profit		**(52,526)**	469,100
Finance income		**19,406**	54,979
Finance costs		**(184,153)**	(292,540)
Finance costs – net		**(164,747)**	(237,561)
Share of results of associates		**55,788**	(12,560)
Share of results of joint ventures		**(26,173)**	(49,977)
(Loss)/profit before income tax		**(187,658)**	169,002
Income tax expense	*5*	**(11,341)**	(72,442)
(Loss)/profit for the period		**(198,999)**	96,560

	Notes	For the six months ended 30 June 2019 Unaudited	2018 Unaudited
Other comprehensive income/(losses), net of tax			
Item that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2,544)**	(2,134)
Item recycled to profit or loss:			
Exchange differences previously recognised through other comprehensive income recycled to profit or loss and included in losses from disposal of subsidiaries		**1,917**	–
Total comprehensive (loss)/income for the period		**(199,626)**	94,426
(Loss)/profit attributable to:			
Owners of the Company		**(199,175)**	82,409
Non-controlling interests		**176**	14,151
		(198,999)	96,560
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(195,834)**	80,275
Non-controlling interests		**(3,792)**	14,151
		(199,626)	94,426
(Loss)/earnings per share attributable to owners of the Company	*6*		
– Basic		**RMB(0.0097)**	RMB0.0040
– Diluted		**RMB(0.0097)**	RMB0.0040

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

(Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	**30 June 2019 Unaudited**	31 December 2018 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**700,627**	706,767
Investment properties		**4,325,037**	5,408,444
Prepaid land lease payments		**–**	197,500
Right-of-use assets		**196,144**	–
Goodwill		**16,271**	16,271
Investments in associates		**1,147,423**	1,105,416
Investments in joint ventures		**3,775,108**	3,825,696
Deferred tax assets		**242,837**	242,837
Financial assets at fair value through other comprehensive income		**150,657**	150,657
Other financial assets at amortised cost		**574,426**	574,426
Other non-current assets		**170,994**	171,474
		11,299,524	12,399,488
Current assets			
Prepaid land lease payments		**944,413**	1,808,404
Properties held or under development for sale		**891,277**	1,542,450
Inventories		**470**	848
Trade receivables	*8*	**11,051**	16,984
Other receivables		**2,074,804**	2,365,212
Prepayments and other current assets		**34,897**	341,216
Prepaid income tax		**69,953**	103,400
Other financial assets at amortised cost		**1,419,426**	1,611,011
Cash and cash equivalents		**222,664**	698,610
Restricted cash		**2,627**	2,623
		5,671,582	8,490,758
Assets classified as held for sale		**1,643,914**	–
		7,315,496	8,490,758
Total assets		**18,615,020**	20,890,246

	Notes	30 June 2019 Unaudited	31 December 2018 Audited
EQUITY AND LIABILITIES			
EQUITY			
Issued share capital and premium		**6,747,788**	6,747,788
Other reserves		**239,203**	235,929
Retained profits		**262,597**	461,772
Equity attributable to owners of the Company		**7,249,588**	7,445,489
Non-controlling interests		**352,382**	372,762
Total equity		**7,601,970**	7,818,251
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**4,007,366**	2,737,118
Deferred tax liabilities		**1,463,752**	1,498,997
		5,471,118	4,236,115
Current liabilities			
Interest-bearing bank and other borrowings		**1,750,089**	4,905,884
Contract liabilities		**91,670**	420,959
Trade payables	*9*	**349,466**	609,853
Other payables and accruals		**1,906,774**	2,041,820
Current income tax liabilities		**841,575**	857,364
		4,939,574	8,835,880
Liabilities directly associated with assets classified as held for sale		**602,358**	–
		5,541,932	8,835,880
Total liabilities		**11,013,050**	13,071,995
Total equity and liabilities		**18,615,020**	20,890,246

Notes:

(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 statements of the Group for the six months ended 30 June 2019 which have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of and for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Going concern basis

As at 30 June 2019, the Group's current liabilities included RMB1,750.1 million of current borrowings out of which RMB614 million were immediately repayable or payable on demand. In addition, the Group's cash and cash equivalents decreased from RMB698.6 million as at 31 December 2018 to RMB222.7 million as at 30 June 2019. During the year ended 31 December 2018, 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 RMB614 million in total as at 30 June 2019 being immediately repayable, so that RMB180 million originally scheduled due beyond 30 June 2020 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) The Group has further reached agreements with parent company and a fellow subsidiary of the Group on 17 June 2019 as follows:

   - the repayment date of loans from a fellow subsidiary of the Group amounting to US$150 million was further extended to 31 January 2021; and

   - the repayments of loans from parent company, which were due for repayment within one year or payable on demand by lenders, were unconditionally extended to dates at least after 20 months from 31 May 2019.

   The above loans from a fellow subsidiary of the Group and from parent company, totalling at RMB 2,859.8 million as at 30 June 2019, were classified in non-current liabilities accordingly.

2) The Group continued to speed up its divestments on its financial assets investments, its investments in certain property assets and its equity holding in certain joint ventures and associated companies following its certain strategic change. The Group has achieved certain major progress in this aspect:

- completed the divestment of remaining 51.1% equity interest in Profit Concept Investment Limited which owns two investment properties in the United Kingdom, and collected consideration proceeds by 30 June 2019;

- reached the agreement to dispose 97.5% equity interest in Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaogao Project") together with the loan from the Group to the Liaogao Project at a consideration of RMB1,256 million in total. RMB150 million of advances have been received in cash by 30 June 2019, and the Group expects to collect the remaining consideration in next few months according to the scheduled settlement dates; and

- well progressed in negotiating with certain specific counterparties in divestment of financial assets and property investments, and the Group expects to close the deals in next few months and collect the consideration timely.

Considering that the Group's financial assets investments mostly have property projects as underlying assets, and the Group's 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 the next 12 months from 30 June 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 30 June 2019. 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, 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 considering 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 30 June 2019. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

New standard, amendments and interpretation to HKFRSs adopted by the Group in 2019

The Group adopts the following new standard, amendments and interpretation to HKFRSs effective for the financial year ending 31 December 2019.

- HKFRS 16 "Leases"

- HK (IFRIC) 23 “Uncertainty over Income Tax Treatments”
- Amendments to HKFRS 9 “Prepayment Features with Negative Compensation”
- Amendment to HKAS 28 “Long-term Interests in Associates and Joint Ventures”
- Amendments to HKAS 19 “Plan Amendment, Curtailment or Settlement”
- Annual Improvements 2015-2017 Cycle

The adoption of above new standard, amendments and interpretation to existing HKFRSs do not have a material impact on the financial position and performance of the Group for the six months ended 30 June 2019, nor resulted in restatement of comparative figures.

The Group has not early adopted any new financial reporting and accounting standards, amendments or interpretations 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 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 2019 (unaudited)			
	Property development	**Property leasing**	**Other operations**	**Total**
Segment revenue				
Sales to external customers	**360,598**	**63,827**	**45,275**	**469,700**
Intersegment sales	**–**	**–**	**21,772**	**21,772**
	360,598	**63,827**	**67,047**	**491,472**
Reconciliation:				
Elimination of intersegment sales				**(21,772)**
Revenue				**469,700**
Segment (loss)/profit	**(41,085)**	**26,296**	**(37,737)**	**(52,526)**
Finance income				**19,406**
Finance costs				**(184,153)**
Finance costs – net				**(164,747)**
Share of results of associates				**55,788**
Share of results of joint ventures				**(26,173)**
Loss before income tax				**(187,658)**

	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

3. Revenue

An analysis of revenue is as follows:

	(unaudited) For the six months ended 30 June	
	2019	2018
Revenue from sale of properties	**361,459**	665,364
Revenue from property leasing	**69,587**	81,580
Revenue from property management	**11,858**	12,638
Revenue from construction of infrastructure for intelligent network	**5,264**	838
Other revenue	**27,249**	53,315
	475,417	813,735
Less: Tax and surcharges (a)	**(5,717)**	(3,086)
Total revenue	**469,700**	810,649

(a) Tax and surcharges

Tax and surcharges included government surcharges, comprising city maintenance and construction tax, education surtax and river way management fee, which are calculated at certain percentages of VAT.

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

- Pursuant to the 'Public Notice on Relevant Polices for Deepening VAT Reform' jointly issued by the Ministry of Finance, State Taxation Administration and General Administration of Customs on 29 March 2019, the applicable tax rates of revenue arising from sale and lease of properties and revenue arising from construction of infrastructure for intelligent network are 9% from 1 April 2019, while they were 10% from 1 May 2018 to 31 March 2019, and 11% before 1 May 2018. 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%.

4. (Losses)/gains from disposal of subsidiaries and partial interest in a joint venture – net

	(unaudited) For the six months ended 30 June	
	2019	2018
(Losses)/gains from disposal of subsidiaries *(a)*	**(1,816)**	219,583
Gain from disposal of partial interest in a joint venture	**1,799**	3,724
	(17)	223,307

(a) In May 2019, the Group disposed all of its 51.1% equity interest in Profit Concept Investments Limited ("Profit Concept") and its shareholder loans to Profit Concept for a total consideration of approximately RMB274 million. On the disposal date, the net asset value of Profit Concept attributable to the Group was approximately RMB20 million and the shareholder loan was RMB256 million. The Group recorded a loss on the disposal of approximately RMB2 million.

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%. 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 of Changsha Horoy attributable to the Group was approximately RMB7 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 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 of SRE Capital attributable to the Group was approximately RMB0.21 million. The Group recorded a gain on the disposal of approximately RMB0.36 million.

5. Income Tax Expense

	(unaudited) For the six months ended 30 June	
	2019	2018
Current taxation		
– Mainland China income tax (a)	**5,877**	9,682
– Mainland China LAT (c)	**(12,635)**	21,061
	(6,758)	30,743
Deferred taxation		
– Mainland China income tax	**18,601**	45,689
– Mainland China LAT	**(1,076)**	(1,268)
– Mainland China withholding tax (d)	**574**	(2,722)
	18,099	41,699
Total tax charge for the period	**11,341**	72,442

(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 (2018: 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, 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% (2018: 2% to 5%) on proceeds from 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 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.

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 (2018: 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 2019 and 2018, as the average market share price of the Company's shares was lower than assumed exercise price being 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 2019	For the six months ended 30 June 2018
Earnings		
(Loss)/profit attributable to owners of the Company	**(199,175)**	82,409

	Number of shares	
	For the six months ended 30 June 2019 ***(Thousand shares)***	For the six months ended 30 June 2018 *(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 30 June 2019 and the date of issuance of this interim financial information.

7. Dividend

On 22 August 2019, the Board resolved not to declare an interim dividend for the six months ended 30 June 2019 (2018: Nil).

8. Trade Receivables

	30 June 2019 Unaudited	31 December 2018 Audited
Trade receivables	**33,794**	44,999
Less: Provision for impairment	**(22,743)**	(28,015)
	11,051	16,984

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 2019 Unaudited	31 December 2018 Audited
Within 6 months	**1,466**	6,666
6 months to 1 year	**1,870**	5,504
1 to 2 years	**7,715**	5,610
Over 2 years	**22,743**	27,219
	33,794	44,999

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 2019 Unaudited	31 December 2018 Audited
Within 1 year	**185,518**	343,385
1 to 2 years	**30,647**	102,312
Over 2 years	**133,301**	164,156
	349,466	609,853

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 2019 (the "**Reporting Period**"), the Group recorded a net revenue of approximately RMB470 million (six months ended 30 June 2018: RMB811 million), which represents a decrease by approximately 42% compared with that of the corresponding period of last year. Loss attributable to owners of the Company for the six months ended 30 June 2019 amounted to approximately RMB199 million while profit attributable to owners of the Company for the corresponding period of last year was approximately RMB82 million. The decrease is mainly attributable to the decrease in revenue and gross profit from real estate development as a result of the decrease in areas delivered in the sales of the properties. Meanwhile, gains from the Group's exit from investments decreased during the Reporting Period as a result of stricter regulation and control in domestic property industry.

The Board resolved not to declare an interim dividend for the six months ended 30 June 2019 (2018: Nil).

Liquidity and Financial Resources

As at 30 June 2019, cash and bank balances (including cash and cash equivalents and restricted cash) amounted to approximately RMB225 million (31 December 2018: approximately RMB701 million). Cash and bank balances denominated in RMB and other foreign currencies amounted to RMB124 million and RMB101 million respectively. Working capital (net current assets) of the Group as at 30 June 2019 amounted to approximately RMB1,774 million (31 December 2018: approximately RMB-345 million), representing an increase by approximately 614% as compared with the previous year. Current ratio was at 1.32 (31 December 2018: 0.96).

As at 30 June 2019, the Group's gearing ratio was 42% (31 December 2018: 47%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balances) over total capital (total equity and net borrowings).

Interest-bearing liabilities and their composition

As at 30 June 2019, the Group's interest-bearing liabilities amounted to RMB5,757 million, representing 30.93% of total assets. These interest-bearing liabilities were mainly medium and long-term liabilities. Among these interest-bearing liabilities, short-term borrowings and interest-bearing liabilities due within one year amounted to RMB1,750 million, representing 30.40%; interest-bearing liabilities of more than one year amounted to RMB4,007 million, representing 69.60%.

In respect of financing sources, bank borrowings, shareholder loans and other borrowings accounted for 35.43%, 49.67% and 14.90% respectively. In respect of types of interest rates, liabilities with fixed interest rates accounted for 69.71% and liabilities with floating interest rates accounted for 30.29%. In respect of currencies, RMB liabilities and foreign currencies liabilities accounted for 80.62% and 19.38% respectively.

Charges on Assets and Contingent Liabilities

As at 30 June 2019, the Group's bank and other borrowings of approximately RMB2,124 million (31 December 2018: approximately RMB3,504 million) were secured by mortgage of the Group's leasehold land, investment properties, property, plant and equipment, right-of-use assets and properties held or under development for sale, or by pledge of equity interests 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 totalling approximately RMB351 million (31 December 2018: approximately RMB375 million) and these contracts were still effective as at 30 June 2019.

The Group did not incur any material losses during the Reporting Period in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's properties. On this basis, 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 as at the date of the sales agreement, and therefore no provision has been made in connection with the guarantees.

The Group also provided guarantees to a joint venture of the Group. As at 30 June 2019, such guarantee amounted to approximately RMB3,339 million (31 December 2018: approximately RMB3,259 million).

In addition, the Group's certain equity interests in subsidiaries have been frozen in connection with a litigation against a subsidiary. The Directors consider that it is very remote for the Group to incur any losses and thus not meaningful to provide any details.

BUSINESS REVIEW

In the first half of 2019, the central government consistently adhered to the policy tone of "stabilizing land prices, housing prices and expectations". Locally, the "Targeted policy for specific city" principle has been implemented, and the land market has significantly recovered as compared with the second half of 2018. The financing environment was still difficult, the financing cost was high, the capital policy was further tightened, and the trust and banking institutions received "window guidance" from the supervision. In the first half of 2019, the performance of the top 100 real estate enterprises increased slightly as compared with last year, and the sales growth rate slowed down. The industry as a whole entered a period of steady growth, and the concentration was further improved.

Under such environment, the Group maintained a strategic and steady focus and focused on the optimization and upgrading of existing assets. In terms of sales, the Group increased sales efforts. As for operations, the Group has strengthened its cost control, optimized procedures. In terms of investment, the Group was more cautious in making investments and managed to catch the right moment for exit. In the first half of the year, the Group grasped the market opportunity to realize return from some of its assets. The premium exits of Laogang Project, the UK Office Project and the signing of an equity transfer agreement for the Shenyang Albany Project, as well as successfully implemented the financial real estate model were actions taken to ensure the stability of the Group's cash flows and the orderly development of various business operations.

Real Estate Development

Sales Progress

In the first half of 2019, major projects for sale of the Group and its joint ventures and associates included Beijing Chenfang Garden, Shanghai Albany Oasis Garden, Shanghai Masters Mansions, Jiaxing Project and Phnom Penh Romduol City. In the first half of 2019, the Group together with its joint ventures and associates (on a 100% basis) achieved contract sales of approximately RMB1,693 million for a total floor area of 51,087 m^2.

Project	**Monetary amount of sales contracts signed** *(RMB'000)*	**Contractual gross area** *(m^2)*
Beijing Chenfang Garden	902,336	29,395
Shanghai Albany Oasis Garden	479,980	6,088
Shanghai Masters Mansions	244,932	8,672
Phnom Penh Romduol City	46,624	4,315
Jiaxing Project	18,490	2,110
Other projects	458	507
Total	1,692,820	51,087

Land Bank

As at 30 June 2019, the Group owned a land bank with a total gross floor area of approximately 2.13 million m^2 (including those of the Group's joint ventures and associates on a 100% basis) in Shanghai, Shenyang, Jiaxing, Changsha, Dalian, Beijing, San Francisco, Phnom Penh, etc.

Progress of Construction

Chengdu Albany Oasis Garden

During the first half of 2019, for Phase II of Chengdu Albany Oasis Garden, interior refined decoration for Blocks No. 3 and 4 were completed successfully and the delivery rate reached 96.1%.

Jiaxing Project

During the first half of 2019, the underground structure of the four buildings on the north side of the Jiaxing Lanwan project Phase II have been completed, among which, the construction work of 30# building reached the 2nd floor above the ground, the construction work of 31# building reached the ground floor above the ground, the construction work of 32# building reached the 4th floor above the ground and the construction of No.33# reached the 5th floor above the ground.

75 Howard Project in the USA

During the first half of 2019, for the 75 Howard project in the USA, the pouring of large floor concrete have been completed, the sales hall has completed site selection and leasing agreements have been entered into, and the preliminary architectural design has also been completed.

Progress of Relocation

Shanghai Rich Gate I

During the first half of 2019, contracts were signed for 949 certificates of households (including certificates of individuals) in aggregate, representing a signing rate of 94.1%; 875 certificates of households were relocated, representing a relocating rate of 86.8%; contracts were re-signed for 815 certificates of households in aggregate, representing a re-signing rate of 81%; contracts were signed for 34 certificates of enterprises, representing a signing rate of 87%; and 21 certificates were relocated and 19 certificates were settled.

Changsha Fudi Albany Project

During the first half of 2019, all legal households in the land area of the project were demolished, with relocation rate of 100%. The demolition work has basically been completed.

Dalian Oasis City Garden

Dalian Oasis City Garden is located in Wafangdian City and divided into 9 sections. During the first half of 2019, land certificates for 9 sections of the project have been obtained.

Shanty Town Renovation Project in Zhangjiakou

Shanty Town Renovation Project in Zhangjiakou, located in Qiaoxi District, Zhangjiakou, Hebei Province, covers an area of approximately 143,333 m^2 and involves a relocation area of 86,000 m^2 and residents of 930 households. During the first half of 2019, signing rate of household relocation was approximately 60.3% in aggregate and relocation rate of approximately 60.1%.

Commercial Property Operation

During the first half of 2019, 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, is designed as a composite eco-business cluster in the form of a circular commercial street connected with office building. During the first half of 2019, the Oasis Central Ring Centre introduced quality merchants and continued to optimize the commercial structure and format. The occupancy rate continued to be 100% and the operating revenue was RMB 35.67 million, representing a steady increase as compared with same period of last year.

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 2019, there were 35 new tenants, with new area leased of 7,575 m^2, renewal rate reached 84.09% and operating revenue was RMB23.65 million.

Lake Malaren Golf Course

Lake Malaren Golf Course is a high-level professional golf course in Northern Shanghai and has been rated as one of the top ten golf courses in Mainland China. During the first half of 2019, various events were successfully held to enhance the popularity of the stadium. There was also an increase in both revenue and price per time during the Reporting Period.

Exit from Investment after Making a Profit

The UK Office Projects

Two UK office buildings were acquired in 2016. After the acquisition, asset valuations were increased through financing, planning and demonstration and leasing optimization. During the first half of 2019, after several rounds of negotiations with the partners, the entire exit of the remaining equity was smoothly realized at a reasonable market price, realizing the appreciation of the Group's assets.

Laogang Project

In 2017, the Group and Shanghai Evergrande jointly acquired the debenture of Laogang Logistics Real Estate asset package. The Group contributed RMB46 million. After the acquisition, we continued to negotiate with the debtor to settle the payment plan and contact the buyer. In April 2019, the creditor's rights were transferred at a premium, and the funds recovered were RMB52 million. The financial real estate model was successfully implemented again.

Shenyang Albany Project

Shenyang Albany Project is located in Heping District, Shenyang City Center. The developed property has a construction area of 338,000 m^2, and the permitted gross floor area of the property under development is 216,000 m^2. During the first half of 2019, in order to better achieve strategic focus, focus on existing assets and seek to fully realize the potential of funds, after continuous negotiations with a number of interested parties, a full equity transfer agreement in respect of Shenyang Albany Project was signed with a greater premium than the original investment cost.

BUSINESS OUTLOOK

In July 2019, the meeting of the Political Bureau of the Central Committee of the Communist Party of China reemphasized the positioning of "Houses are for living in, not for speculation", and pointed out that "not using real estate as a means of stimulating the economy in the short term", and the tightening trend of regulation and control policies is more obvious. Following the release of the market demand in the previous period, the probability of rapid growth in the overall industry is expected to be low in the near future, and the competition pattern of the echelons of housing enterprises has intensified. During the first half of the year, China Banking Insurance Regulatory Commission issued a document on the real estate industry, and the financing pressure of the housing companies in the second half of the year is expected to be large.

In the second half of 2019, under the environment of tightened liquidity and increased concentration of the industry, the Group will combine its own situation and focus on the three businesses of "traditional real estate development, holding asset management and financial real estate", realize real estate development with financial thinking, integrate real estate development, investment mergers and acquisitions, risk management and other capabilities, learn from the experience of other outstanding enterprises in the industry, optimize the operation and control model, enhance investment management capabilities, and gradually enhance the core competitiveness of enterprises, while exploring the diversity of funds. We will optimize the financing structure, and ensure the stable development of various business operations.

HUMAN RESOURCES

As at 30 June 2019, the Group had 437 employees in Hong Kong and Mainland China. Total staff costs of the Group excluding directors' remuneration, for the six months ended 30 June 2019 amounted to approximately RMB61.39 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 any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2019.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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 2019.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely, Mr. Chan Charles Sheung Wai, Mr. Zhuo Fumin, and Mr. Han Gensheng with written terms of reference in compliance with the Listing Rules. Mr. Chan Charles Sheung Wai is the chairman of the Audit Committee. These unaudited condensed consolidated interim results for the six months ended 30 June 2019 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2019, 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 (the "**Code**") as set out in Appendix 14 of the Listing Rules except for the following deviations:

Code Provision A.2.1

Pursuant to Code Provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Chairman of the Group is responsible for leading the Board to ensure that it operates effectively and performs its duties, while Chief Executive Officer of the Group is responsible for the overall implementation of the Group's business development and general management. The Board has considered the merits of distinguishing between the roles of Chairman and Chief Executive Officer, but believes that it is in the best interest of the Company for Mr. Peng Xinkuang ("**Mr. Peng**") to hold two positions at the same time. The Board believes that Mr. Peng holding two positions at the same time will enable the Company to obtain more unified leadership and facilitate the implementation of the Group's current and future business strategies. However, the Board will review the structure from time to time in view of the circumstances.

Code Provision A.6.7

Pursuant to Code Provision A.6.7 of the Code, independent non-executive Directors and other non-executive Directors should attend general meetings. Mr. Han Gensheng, an independent non-executive Director, did not attend the annual general meeting of the Company for the year 2019 due to other business engagements.

IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE REPORTING PERIOD

Save as previously disclosed by the Company, there was no other important event affecting the Group which has taken place since 30 June 2019 up to the date of this announcement.

SHAREHOLDING STRUCTURE OF THE COMPANY AND SUFFICIENCY OF PUBLIC FLOAT

Based on public information available and enquiries made by the Company with its shareholders, the shareholding structure of the Company as at the date of this announcement is as follows:

Name of shareholders	**Number of shares held (based on voting rights controlled by the shareholder)**	**Approximate percentage of shareholding**
Jiashun (Holding) Investment Limited *(Note 1)*	12,500,000,000	60.78%
Zhi Tong Investment Limited Partnership *(Note 2)*	2,022,761,390	9.84%
Jiayou (International) Investment Limited *(Note 3)*	30,292,000	0.15%
He Pei Pei *(Note 4)*	160,000	0.0008%
Jiang Chuming *(Note 5)*	500,000	0.0024%
Public	6,011,000,332 *(Note 6)*	29.23%
Total	20,564,713,722	100.00%

Notes:

1. Jiashun (Holding) Investment Limited is an indirect subsidiary of China Minsheng Investment Corp., Ltd. ("**CMI**"). CMI holds approximately 67.40% direct interest in China Minsheng Jiaye Investment Co., Ltd. which, in turn, indirectly holds 100% interest of Jiashun (Holding) Investment Limited.

2. Zhi Tong Investment Limited Partnership is an indirect subsidiary of CMI.

3. Jiayou (International) Investment Limited is an indirect subsidiary of CMI.

4. He Pei Pei is the spouse of Zhuo Fumin, an independent non-executive Director.

5. Jiang Chuming is an executive Director.

6. This includes the 866,897,738 shares held by SRE Investment Holding Limited ("**SREI**") which are charged to Jia Yun Investment Limited. SREI retains the voting rights of shares.

As illustrated from the shareholding table above, as at the date of this announcement, 6,011,000,332 shares (representing approximately 29.23% of the issued share capital of the Company) are in the public hands. Therefore, the Company is in compliance with the public float requirement under Rule 8.08(1)(a) of the Listing Rules.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement of the Company is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.equitynet.com.hk/sre/). The interim report of the Company for 2019 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 and Chief Executive Officer

Hong Kong, 22 August 2019

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