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 2020

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2020
Revenue (RMB'000)	**110,556**
Loss attributable to owners of the Company (RMB'000)	**(51,243)**
Basic loss per share (RMB cents)	**(0.25)**
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 2020 together with comparative figures for the previous corresponding period in 2019. The unaudited interim financial information for the six months ended 30 June 2020 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 2020

(Amounts presented in thousands of Renminbi unless otherwise stated)

		For the six months ended 30 June	
		2020	2019
	Notes	**Unaudited**	Unaudited
Revenue	*3*	**110,556**	469,700
Cost of sales		**(40,970)**	(362,174)
Gross profit		**69,586**	107,526
Gains/(losses) from disposal of subsidiaries and partial interests in a joint venture – net	*4*	**81,418**	(17)
Net impairment losses on financial assets		**(50,394)**	(50,970)
Other gains – net		**59,199**	14,807
Selling and marketing expenses		**(9,195)**	(17,944)
Administrative expenses		**(61,016)**	(105,928)
Operating profit/(loss)		**89,598**	(52,526)
Finance income		**4,552**	19,406
Finance costs		**(154,297)**	(184,153)
Finance costs – net		**(149,745)**	(164,747)
Share of results of associates		**50,086**	55,788
Share of results of joint ventures		**(27,351)**	(26,173)
Loss before income tax		**(37,412)**	(187,658)
Income tax expense	*5*	**(18,735)**	(11,341)
Loss for the period		**(56,147)**	(198,999)

	Notes	For the six months ended 30 June 2020 Unaudited	2019 Unaudited
Other comprehensive losses, net of tax			
Item that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**4,019**	(2,544)
Item recycled to profit or loss:			
Exchange differences previously recognised through other comprehensive income recycled to profit or loss and included in gains from disposal of subsidiaries		**(392)**	1,917
Total comprehensive loss for the period		**(52,520)**	(199,626)
(Loss)/profit attributable to:			
Owners of the Company		**(51,243)**	(199,175)
Non-controlling interests		**(4,904)**	176
		(56,147)	(198,999)
Total comprehensive loss attributable to:			
Owners of the Company		**(47,616)**	(195,834)
Non-controlling interests		**(4,904)**	(3,792)
		(52,520)	(199,626)
Losses per share attributable to owners of the Company	*6*		
– Basic		**RMB(0.0025)**	RMB(0.0097)
– Diluted		**RMB(0.0025)**	RMB(0.0097)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

(Amounts presented in thousands of Renminbi unless otherwise stated)

	Notes	**30 June 2020 Unaudited**	31 December 2019 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**180,847**	185,628
Investment properties		**4,292,679**	4,270,400
Right-of-use assets		**225,574**	230,705
Goodwill		**16,271**	16,271
Investments in associates		**1,242,603**	1,192,517
Investments in joint ventures		**2,844,058**	3,177,540
Deferred tax assets		**243,445**	243,869
Financial assets at fair value through other comprehensive income		**150,657**	150,657
Other non-current assets		**176,238**	173,634
		9,372,372	9,641,221
Current assets			
Prepaid land lease payments		**916,932**	931,711
Properties held or under development for sale		**1,115,967**	996,677
Inventories		**14**	876
Trade receivables	*8*	**14,067**	11,573
Other receivables		**1,894,286**	2,103,803
Prepayments and other current assets		**50,540**	35,298
Prepaid income tax		**72,331**	68,302
Other financial assets at amortised cost		**1,141,358**	1,169,623
Cash and cash equivalents		**735,435**	518,956
Restricted cash		**2,636**	2,632
		5,943,566	5,839,451
Total assets		**15,315,938**	15,480,672

	Notes	30 June 2020 Unaudited	31 December 2019 Audited
EQUITY AND LIABILITIES			
EQUITY			
Issued share capital and share premium		**6,747,788**	6,747,788
Other reserves		**228,406**	236,121
Accumulated losses		**(1,854,590)**	(1,803,347)
Equity attributable to owners of the Company		**5,121,604**	5,180,562
Non-controlling interests		**300,044**	304,948
Total equity		**5,421,648**	5,485,510
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**2,987,873**	3,938,973
Lease liabilities		**30,289**	35,025
Deferred tax liabilities		**1,446,871**	1,436,028
		4,465,033	5,410,026
Current liabilities			
Interest-bearing bank and other borrowings		**1,598,708**	697,855
Lease liabilities		**11,269**	7,538
Contract liabilities		**473,814**	295,791
Trade payables	*9*	**493,778**	453,755
Other payables and accruals		**1,964,204**	2,237,226
Current income tax liabilities		**887,484**	892,971
		5,429,257	4,585,136
Total liabilities		**9,894,290**	9,995,162
Total equity and liabilities		**15,315,938**	15,480,672

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 2020 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Going concern basis

As at 30 June 2020, the Group's current liabilities included RMB1,598.7 million of borrowings, out of which RMB1,150.7 million were defaulted and became immediately repayable triggered by (1) deterioration of the financial conditions of China Minsheng Investment Corporation Ltd., the ultimate holding company of the Group since 2018; (2) the arrest of Mr. Peng Xinkuang, a former director of the Company, and the detention of Mr. Chen Donghui, a former director of the Company, by the relevant authorities in the PRC in January and February 2020. The above events also resulted in the default of a joint venture's loan of RMB3,452 million guaranteed by the Group which gave rights of the relevant lenders to demand the Group to fulfill its guarantee obligation to repay the loan of the joint venture. As at 30 June 2020, however, the Group's cash and cash equivalents amounted to RMB735 million only.

The above conditions indicated the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

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 formulated following plans and measures to mitigate the liquidity pressure and to improve its cash flows.

1) Although no demand for immediate repayment has been made by the relevant lenders, the Group has been proactively communicating with the relevant lenders to explain that the Group's business, operations, financial condition and cash position remain normal and stable, and the Group has sufficient financial resources to support the repayments of the relevant loans under original repayment schedules. The directors are confident to convince the relevant lenders not to exercise their rights to request the Group for immediate repayment of the loans prior to their scheduled contractual repayment dates.

2) The Group has also been proactively communicating with the lenders of the loan of the joint venture guaranteed by the Group, and the lenders have neither demanded the joint venture for immediate repayment of the loan nor requested the Group to immediately fulfill its guarantee obligation to repay the loan on behalf of the joint venture. The directors are confident to convince the lenders not to exercise such rights to request the joint venture for immediate repayment of the loan prior to its scheduled contractual repayment dates or request the Group to fulfill the guarantee obligation.

3) The Group is actively negotiating with several financial institutions for grant of new loans, offering a sufficient pledge of assets and at a reasonable cost. Certain financial institutions have indicated their intention to grant new loans to the Group. Considering the Group's ability in providing sufficient pledges of properties and other assets and the Group's good credit history, the directors are confident that the Group will be able to secure new loans at a reasonable cost, when necessary.

Management has prepared the Group's cash flow forecast which covers a period of at least 12 months from 30 June 2020. The directors, after making due inquiries and considering the basis of management's projections described above, believe that, taking into account the above-mentioned plans and measures, the Group will have sufficient funds to finance its operations and to meet its financial obligations as and when they fall due within the next 12 months from 30 June 2020. Accordingly, the directors are satisfied that it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the followings:

(i) successful maintenance of a continuing and normal business relationship with the Group's existing lenders such that no action will be taken by the relevant lenders to exercise their contractual rights to demand immediate repayment of the relevant borrowings;

(ii) successful maintenance of a continuing and normal business relationship with the lenders of the joint venture of the Group such that no action will be taken by the lenders to exercise their contractual rights to demand immediate repayment of the joint venture's loan and request the Group to fulfill its guarantee obligation;

(iii) successful in obtaining additional sources of financing as and when needed;

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the interim condensed consolidated financial statements.

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 2019.

New amendments to HKFRSs adopted by the Group in 2020

The Group adopts the following amendments to HKFRSs effective for the financial year ending 31 December 2020.

– Amendments to HKAS 1 and HKAS 8

– Amendments to HKFRS 3

– Revised Conceptual Framework for Financial Reporting

– Amendments to HKFRS 9, HKAS 39 and HKFRS 7

– Amendments to HKFRS 16 – COVID-19-Related Rent Concessions

The adoption of above new amendments of HKFRSs does not have a material impact on the financial position and performance of the Group for the six months ended 30 June 2020, nor results 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 2020 (unaudited)			
	Property development	**Property leasing**	**Other operations**	**Total**
Segment revenue				
Sales to external customers	**19,331**	**29,203**	**62,022**	**110,556**
Intersegment sales	**–**	**–**	**43,399**	**43,399**
	19,331	**29,203**	**105,421**	**153,955**
Reconciliation:				
Elimination of intersegment sales				**(43,399)**
Revenue				**110,556**
Segment profit	**7,985**	**11,696**	**69,917**	**89,598**
Finance income				**4,552**
Finance costs				**(154,297)**
Finance costs – net				**(149,745)**
Share of results of associates				**50,086**
Share of results of joint ventures				**(27,351)**
Loss before income tax				**(37,412)**

	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)

3. Revenue

An analysis of revenue is as follows:

	(unaudited) For the six months ended 30 June	
	2020	2019
Revenue from sale of properties	**19,482**	361,459
Revenue from property leasing	**29,417**	69,587
Revenue from property management	**11,025**	11,858
Revenue from construction of infrastructure for intelligent network	**708**	5,264
Other revenue	**50,310**	27,249
	110,942	475,417
Less: Tax and surcharges (a)	**(386)**	(5,717)
Total revenue	**110,556**	469,700

(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 value-added tax ("VAT").

Effective from 1 May 2016, the Group's revenue is subject to 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. Gains/(losses) from disposal of subsidiaries and partial interests in a joint venture – net

	(unaudited) For the six months ended 30 June	
	2020	2019
Gains/(losses) from disposal of subsidiaries (a)	**12,978**	(1,816)
Gain from disposal of partial interests in a joint venture (b)	**68,440**	1,799
	81,418	(17)

(a) In April 2020, the Group disposed of 50% of its equity interest in a then wholly owned subsidiary of the Company, Revenue Concept Investment Ltd ("Revenue Concept"), which held 92.91% of equity interest in Sregal Sinclair LLP ("Sinclair"), one of the joint ventures of the Group, for a consideration of approximately GBP8.86 million (equivalent to approximately RMB77.92 million) and recorded part of disposal gain of approximately RMB7.81 million. After the transaction, Revenue Concept became a joint venture of the Group resulting in the derecognition of the original joint venture of Sinclair. On the disposal date, the net asset value of Revenue Concept attributable to the Group was approximately RMB140.23 million. After the disposal of 50% equity interest in Revenue Concept, the 50% remaining interest held by the Group was remeasured to its fair value of approximately RMB75.28 million at the date when control was lost, and the difference with its then carrying amount of approximately RMB5.17 million was recognised as part of the disposal gain. As such, the Group recorded a disposal gain of approximately RMB12.98 million.

(b) In June 2020, the Group reduced its investment in Ningbo Meishan Free Trade Port Zone Zhi Miao Investment Center LLP ("Ningbo Zhi Miao") of RMB261 million, and received basic earnings of approximately RMB68.44 million in relation to this capital reduction.

5. Income Tax Expense

	(unaudited) For the six months ended 30 June **2020**	2019
Current taxation		
– Mainland China income tax (a)	**5,866**	5,877
– Mainland China LAT (c)	**1,602**	(12,635)
	7,468	(6,758)
Deferred taxation		
– Mainland China income tax	**10,950**	18,601
– Mainland China LAT	**(318)**	(1,076)
– Mainland China withholding tax (d)	**635**	574
	11,267	18,099
Total tax charge for the period	**18,735**	11,341

(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 (2019: 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% (2019: 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. Losses 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 (2019: 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 2020 and 2019, 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 2020	For the six months ended 30 June 2019
Earnings		
Loss attributable to owners of the Company	**(51,243)**	(199,175)

	Number of shares	
	For the six months ended 30 June 2020	For the six months ended 30 June 2019
	(Thousand shares)	*(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 2020 and the date of issuance of this interim financial information.

7. Dividend

On 26 August 2020, the Board resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: Nil).

8. Trade Receivables

	30 June 2020 Unaudited	31 December 2019 Audited
Trade receivables	**36,810**	34,316
Less: Provision for impairment	**(22,743)**	(22,743)
	14,067	11,573

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 2020 Unaudited	31 December 2019 Audited
Within 6 months	**5,663**	3,335
6 months to 1 year	**–**	–
1 to 2 years	**8,404**	8,238
Over 2 years	**22,743**	22,743
	36,810	34,316

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 2020 Unaudited	31 December 2019 Audited
Within 1 year	**293,096**	278,514
1 to 2 years	**103,039**	85,845
Over 2 years	**97,643**	89,396
	493,778	453,755

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 2020 (the "Reporting Period"), the Group recorded a net revenue of approximately RMB111 million (six months ended 30 June 2019: RMB470 million), which represents a decrease by approximately 76% compared with that of the corresponding period of last year. Loss attributable to owners of the Company for the six months ended 30 June 2020 amounted to approximately RMB51 million while loss attributable to owners of the Company for the corresponding period of last year was approximately RMB199 million. The decrease in revenue and gross profit is mainly attributable to the reduction in the delivered area of properties sold by Group and the termination of tenancies by tenants of the commercial properties held by the Group due to reduction in customer flow as a result of the COVID-19 epidemic. The decrease in loss is mainly attributable to gain from disposal of investment of the Group and the reduction in various expenses of the Group as a result of the implementation of a series of effective cost reduction measures during the Reporting Period.

The Board resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: Nil).

Liquidity and Financial Resources

As at 30 June 2020, cash and bank balances (including cash and cash equivalents and restricted cash) amounted to approximately RMB738 million (31 December 2019: approximately RMB522 million). Working capital (net current assets) of the Group as at 30 June 2020 amounted to approximately RMB514 million (31 December 2019: approximately RMB1,254 million), representing a decrease by approximately 59% as compared with the previous year. Current ratio was at 1.09 (31 December 2019: 1.27).

As at 30 June 2020, the Group's gearing ratio was 42% (31 December 2019: 43%), 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 2020, the Group's interest-bearing liabilities amounted to RMB4,587 million, representing 30% of total assets.

In respect of financing sources, bank borrowings, shareholder loans and other borrowings accounted for 25%, 63% and 12% respectively. In respect of types of interest rates, liabilities with fixed interest rates accounted for 74% and liabilities with floating interest rates accounted for 26%. In respect of currencies, RMB liabilities and foreign currencies liabilities accounted for 76% and 24% respectively.

Charges on Assets and Contingent Liabilities

As at 30 June 2020, the Group's bank and other borrowings of approximately RMB1,711million (31 December 2019: approximately RMB1,743 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 a subsidiary 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 banks grant the relevant mortgage loans and end when the purchasers pledge related property certificates as security to the banks offering the mortgage loans. The Group entered into such guarantee contracts with principal amounts totalling approximately RMB197 million (31 December 2019: approximately RMB118 million) and these contracts were still effective as at 30 June 2020.

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 realizable 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 loans 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 guarantee for bank loans of a joint venture of the Group. As at 30 June 2020, such guarantee amounted to approximately RMB3,452 million (31 December 2019: approximately RMB3,414 million).

Meanwhile, the Group provided a completion guarantee on the development of a joint venture in relation to the development loans withdrawn amount of US$106 million as at 30 June 2020 (31 December 2019: US$34.95 million). Relevantly, the Group provided a deposit of US$24.92 million as at 30 June 2020 (31 December 2019: US$24.92 million) as guarantor's letter of credit for the loan apart from the guarantee above.

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

Risk of fluctuations in exchange rates

The Group conducts a majority of its business operations in the PRC, which most of the revenue and expenses are denominated in RMB. The Group currently has no foreign currency hedging policies, but the management monitors risks of fluctuations in exchange rates and will consider hedging significant risks of fluctuations in exchange rates when necessary.

BUSINESS REVIEW

In recent years, due to the factors such as decline in economic growth of China, the Sino-US trade frictions, the weakening of the demographic dividend, coupled with the unexpected impact of the COVID-19 epidemic in the first half of 2020, China is facing a short-term cyclical downward pressure and a mid-to long-term structural downward pressure. In terms of real estate policy, the central government has lowered the standards three times to release the economic vitality. Local governments have become more flexible in implementing policies for the city, which have gradually reduced the pressure for the market and enterprises on liquidity of funds, land transfer and real estate transactions. Combined with factors including the easing of the epidemic and the positive relief of housing demand, the real estate industry has experienced a process of shutdown-restart-recovery in the first half of the year. As of the end of June, in terms of sales, the cumulative sales area of commercial housing nationwide has reached 92.4% of the corresponding period of last year, with the cumulative sales has reached 97.2% of the corresponding period of last year, of which, the sales performance of branded real estate is close to the corresponding period of last year. China's real estate industry still maintains a strong resilience.

In face of the severe external situation and the impact of the epidemic, the Group has gradually stabilised the Company with the idea of "stabilising people's hearts, focusing on the operation, preventing the epidemic and strengthening the management" since the beginning of the year, and in terms of strategy, the Group has defined the three-year development plan of "regional boutique residential developer" in the first half of year. In terms of project operation, development projects have accelerated the progress of collection of sales receivables and commencement of construction, the properties held have resumed operation in an orderly manner. In the first half of the year, the overall sales indicator of the Company's domestic key development projects on sales achieved the "half of the mission within half of the time". The properties held have strived to maintain steady operations under the pressure of the epidemic. In terms of investment, the Group has been actively carrying out project resource reserves and negotiating on various investment projects. Meanwhile, collection of transactions have been accelerated to improve the liquidity, and management costs have been significantly reduced. In summary, the Group maintained stable cash flow and various operations have been carried out in an orderly manner in the first half of the year.

REAL ESTATE DEVELOPMENT

Sales Progress

In the first half of 2020, major projects for sale of the Group and its joint ventures and associates included Shanghai Albany Oasis Garden, Shanghai Huating Project, Jiaxing Project, the Atelier and the 75 Howard Project in the USA. In the first half of 2020, the Group together with its joint ventures and associates (on a 100% basis) achieved contract sales of approximately RMB892 million for a total floor area of 21,478 m^2.

Project	**Monetary amount of sales contracts signed** *(RMB'000)*	**Contractual gross area** *(m^2)*
Jiaxing Project	190,468	16,306
Shanghai Albany Oasis Garden	187,731	2,048
75 Howard Project in the USA	474,865	2,559
Shanghai Huating Project	24,791	306
The Atelier	11,154	86
Other projects	3,212	173
Total	892,221	21,478

Land Bank

As at 30 June 2020, the Group owned a land bank with a total gross floor area of approximately 1.61 million m^2 (including those of the Group's joint ventures and associates) in Shanghai, Jiaxing, Changsha, Dalian, Beijing, San Francisco, Phnom Penh, etc.

Progress of Construction

Jiaxing Project

During the first half of 2020, the main structure on the south side of the Jiaxing Lanwan Project Phase II has been completed ahead of schedule, while the north side is undergoing installation of doors and windows, it is expected that the construction on the north side will reach the completion acceptance standards by the end of the year. The project resumed sales in March and exceeded the targets of signing contract and collection of receivables in the first half of the year.

75 Howard Project in the USA

During the first half of 2020, the pouring of structure of the 75 Howard in the USA is completed up to the 19th floor, the installation of curtain walls are completed from 3rd floor to 9th floor, and the construction is proceeding smoothly. The project started local sales in the USA in January, and sales performance has been satisfactory. International marketing and promotion have started simultaneously

Phnom Penh Romduol City Project

During the first half of 2020, the main structure of Building A of the Cambodia project has been constructed to the 4th floor, it is expected the construction will be completed by the end of the year. The construction is proceeding smoothly while sales are greatly affected by the epidemic.

Dalian Oasis City Garden

Dalian Oasis City Garden is located in Wafangdian City and divided into 9 plots. During the first half of 2020, the project is undergoing land merger and planning adjustment, while construction is expected to commence within the year.

Shanghai Masters Mansions Project

During the first half of 2020, the Lake Malaren Silicon Phase II completed the adjustment on planning indicators and some of the design optimization, and solved some of the historical issues. Construction is expected to commence at the second half of the year.

Changsha Fudi Albany Project

During the first half of 2020, the project's box culverts at side road have began to be processed.

Progress of Relocation

Shanghai Rich Gate I

During the first half of 2020, contracts were signed for 964 certificates of households (including certificates of individuals) in aggregate, representing a signing rate of 95.63%; 924 certificates of households were relocated, representing a relocating rate of 91.67%; contracts were signed for 34 certificates of enterprises, representing a signing rate of 87.18%; and 23 certificates were settled, representing a relocating rate of 58.97%. The expropriation work was effectively promoted.

Shanty Town Renovation Project in Zhangjiakou

In 2020, contracts were signed for 806 households, and the remaining 151 households have not signed a contract, representing a signing rate of approximately 84.22%. The land planning of "North District + Road" completed the demolish during the year and is eligible for bidding.

Commercial Property Operation

During the first half of 2020, under the severe market environment and the impact of the epidemic, the Group has gradually resumed full operation in an orderly manner, as well as continued to strengthen the management and operation of its commercial properties, ride on its advantages in brand and management, adjust operating strategies as appropriate, strengthen control on expenditure and improve operating efficiency.

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 2020, after the epidemic has stabilized, the Oasis Central Ring Centre has resumed operation in an orderly manner with the occupancy rate maintained at 96% and the operating revenue has decreased as compared with that of the corresponding period of last year.

Shenyang Rich Gate Shopping Mall

Leveraging on a number of children's education and children's support services, Shenyang Rich Gate Shopping Mall is strived to deepen two main operational lines of education and catering business to establish the positioning of "Alliance of education and catering". The project was greatly affected by the epidemic in the first half of 2020, with revenue and profit declining compared with that of the corresponding period of last year, and increased withdrawal of merchants due to poor performance. After the epidemic has stabilized, the project actively strengthened business support to merchants, increased revenue and reduced expenditure, as well as maintained the overall occupancy rate at 71% in the first half of the year.

Lake Malaren Golf Course

Lake Malaren Golf Course is a high-level professional golf course in Northern Shanghai and ranked the ninth among the top 100 stadiums in the country, it is undergoing relevant transformations to expand revenue channels, while the operating revenue and operating profit have remained stable.

Retail Street of Lake Malaren

Shanghai Lake Malaren Commercial Street has created the positioning of "a new landmark that combines sports, culture and arts, featuring dining and markets at North Shanghai". With overall upgrade and renovation, as well as the addition of supporting facilities such as tracks with landscape around the lake and night lights, the renovation is completed. The project is in the process of proactive search for potential merchants, with significantly improved overall business outlook and rental efficiency, it is expected to open in the second half of the year.

Exit from Investment after Making a Profit

Beijing, Shanghai and Shenzhen Asset Package

The asset package project was holding two assets in Beijing and Shenzhen at the beginning of the year, of which, the Shenzhen project was listed for disposal at a premium price at the first quarter of 2020, with a premium rate reaching 13.49%. The Shenzhen project is located in Shekou Industrial Zone, Shenzhen. Since the aforesaid properties were demolished after being included in the Shenzhen Urban Renewal Unit Planning, new housing will be built at the original address as compensation and the Group has the right of return in respect of the corresponding properties and parking spaces. In the second quarter of 2020, pursuant to the agreement, part of the investment shares of the asset package has been withdrawn, realizing a cash inflow of the principal and earnings amounted to RMB330 million.

BUSINESS OUTLOOK

As the epidemic is under periodic control in China, the Central bank and local governments have issued multiple relief policies such as trimmed interest rate, tax exemptions, new policies for talents and housing subsidies to boost the property market and ease the downward pressure on the economy. It is expected that the demand will continue to exist in the second half of the year, and the overheated property market will continue within a certain period of time. In terms of the policy, control policies are expected to focus on stability. In terms of the market, it is expected that the differentiation between cities will continue to intensify, and the transaction volume in first- and second-tier cities is expected to increase steadily, while third- and fourth-tier cities are still tight demand-oriented markets with certain degree of callback pressure. In terms of real estate development and investment, it is expected that most city governments will continue to accelerate the pace of launching land parcels for sale to alleviate the financial pressure from the weakened economy, and the land market in some popular cities will remain certain intensity. In terms of real estate holdings, in the short-term, the domestic economy is still recovering, physical business operations are still facing challenges, and commercial assets are overall under pressure. In general, for real estate, 2020 will be a year where both difficulties and opportunities co-exist.

In the second half of 2020, the Group will focus its work on the "two focuses". The first is to focus on key projects so as to accelerate the development progress, speed up the collection of sales receivables and create regional boutiques, where the second is to focus on key works, exploring diversified channels in financing to support the development of key projects. In terms of project expansion, the Group will strengthen the policy and land market research of core cities of the Yangtze River Economic Belt, as well as obtain high-quality project reserves according to the funds of the Company, as appropriate.

HUMAN RESOURCES

As at 30 June 2020, the Group had 399 employees in Hong Kong and Mainland China. Total staff costs of the Group excluding directors' remuneration, for the six months ended 30 June 2020 amounted to approximately RMB31.31 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 2020.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 2020.

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 2020 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2020, 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 as set out in Appendix 14 of the Listing Rules.

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 2020 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)*	134,092,000	0.66%
He Pei Pei *(Note 4)*	160,000	0.0008%
Jiang Chuming *(Note 5)*	500,000	0.0024%
Public	5,907,200,332 *(Note 6)*	28.72%
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 67.26% 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 (an indirect subsidiary of CMI). SREI retains the voting rights of shares.

As illustrated from the shareholding table above, as at the date of this announcement, 5,907,200,332 shares (representing approximately 28.72% 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 2020 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.

By Order of the Board
SRE Group Limited
Lei Dechao
Chairman

Hong Kong, 26 August 2020

As at the date of this announcement, the Board comprises five executive directors, namely Mr. Lei Dechao, Mr. Zhu Qiang, Ms. Qin Wenying, Mr. Jiang Qi and Ms. 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*