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華南城

China South City Holdings Limited

華南城控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 1668)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2013	2012	**Approximate**
	HK$'000	*HK$'000*	**Change %**
Contracted Sales	**5,787,100**	1,915,200	**202.2**
Revenue	**3,196,977**	2,507,318	**27.5**
Gross profit	**1,649,210**	1,346,541	**22.5**
Gross profit margin	**52%**	54%	
Core net profit (being profit for the Period excluding fair value gains on investment properties and related tax effect)	**839,273**	476,616	**76.1**
Profit attributable to owners of the parent	**964,603**	749,304	**28.7**
Basic earnings per share	**HK15.82 cents**	HK12.49 cents	**26.7**

INTERIM RESULTS

The board of directors (the "Board") of China South City Holdings Limited ("China South City" or the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2013 ("1HFY2013/14" or the "Period") together with the comparative figures for the previous financial period as follows:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2013

		For the six months ended 30 September	
		2013	2012
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE	3	**3,196,977**	2,507,318
Cost of sales		**(1,547,767)**	(1,160,777)
Gross profit		**1,649,210**	1,346,541
Other income and losses	4	**11,824**	(994)
Fair value gains on investment properties	4	**488,182**	387,538
Selling and distribution expenses		**(190,343)**	(83,684)
Administrative expenses		**(261,794)**	(224,127)
Other expenses		**26,888**	(33,945)
Finance costs	5	**(81,460)**	(43,410)
Share of profits and losses of:			
A joint venture		**(249)**	–
An associate		**(201)**	(170)
PROFIT BEFORE TAX	6	**1,642,057**	1,347,749
Income tax expenses	7	**(458,668)**	(609,846)
PROFIT FOR THE PERIOD		**1,183,389**	737,903
Attributable to:			
Owners of the parent		**964,603**	749,304
Non-controlling interests		**218,786**	(11,401)
		1,183,389	737,903
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic			
— For profit for the period		**HK15.82 cents**	HK12.49 cents
Diluted			
— For profit for the period		**HK14.28 cents**	HK12.48 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2013

	For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**1,183,389**	737,903
Exchange differences on translation of foreign operations	**127,049**	15,626
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,310,438**	753,529
Attributable to:		
Owners of the parent	**1,088,550**	764,872
Non-controlling interests	**221,888**	(11,343)
	1,310,438	753,529

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2013

	Notes	**30 September 2013** **HK$'000** **(Unaudited)**	31 March 2013 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**623,568**	601,146
Investment properties		**21,395,829**	19,425,946
Properties under development		**2,717,303**	2,381,710
Prepaid land lease payments		**106,691**	105,440
Investment in a joint venture		**8,498**	8,936
Investment in an associate		**(2,778)**	(2,542)
Finance lease receivables		**24,844**	29,561
Deposits paid for purchase of land use rights		**742,883**	781,022
Deferred tax assets		**731,313**	586,232
Total non-current assets		**26,348,151**	23,917,451
CURRENT ASSETS			
Properties held for finance lease		**513,817**	571,403
Properties held for sale		**12,707,490**	9,381,178
Trade receivables	*10*	**923,403**	936,927
Prepayments, deposits and other receivables		**860,295**	642,581
Held for trading investments at fair value through profit or loss		**103,197**	117,643
Cash and cash equivalents and restricted cash		**9,080,252**	6,777,842
Total current assets		**24,188,454**	18,427,574
CURRENT LIABILITIES			
Trade and other payables	*11*	**12,061,753**	8,165,727
Interest-bearing bank and other borrowings		**5,138,014**	4,418,254
Tax payables		**3,019,096**	2,790,467
Total current liabilities		**20,218,863**	15,374,448
NET CURRENT ASSETS		**3,969,591**	3,053,126
TOTAL ASSETS LESS CURRENT LIABILITIES		**30,317,742**	26,970,577

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)
At 30 September 2013

	30 September 2013 *HK$'000* (Unaudited)	31 March 2013 *HK$'000* (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**5,948,279**	4,581,741
Senior notes	**2,861,739**	2,853,402
Convertible notes	**986,109**	–
Deferred tax liabilities	**3,561,058**	3,492,673
Total non-current liabilities	**13,357,185**	10,927,816
Net assets	**16,960,557**	16,042,761
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**61,718**	60,536
Reserves	**16,482,389**	15,187,361
Proposed dividends	**–**	605,356
	16,544,107	15,853,253
Non-controlling interests	**416,450**	189,508
Total equity	**16,960,557**	16,042,761

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2013

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

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 for the year ended 31 March 2013.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs", WHICH ALSO INCLUDE HKASs AND INTERPRETATIONS)

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 March 2013, except for the adoption of the revised standards as of 1 April 2013 and the accounting policy of convertible notes, noted below.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *– Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of these new and revised HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial statements. Nevertheless, certain changes in disclosures have been adopted by the Group in compliance with the following new and revised HKFRSs:

HKFRS 13 established a single source of guidance under HKFRSs for all fair value measurements. HKFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under HKFRSs when fair value is required or permitted. The application of HKFRS 13 has not materially impacted the fair value measurements carried out by the Group.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

3. SEGMENT INFORMATION

For the six months ended 30 September 2013 (Unaudited)	**Property development** *HK$'000*	**Property investment** *HK$'000*	**Property management** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Segment revenue:					
Sales to external customers	**2,998,547**	**114,755**	**33,572**	**50,103**	**3,196,977**
Intersegment sales	**–**	**9,148**	**–**	**–**	**9,148**
	2,998,547	**123,903**	**33,572**	**50,103**	**3,206,125**
Elimination of intersegment sales					**(9,148)**
Revenue					**3,196,977**
Segment results before increase in fair value of investment properties	**1,643,142**	**113,754**	**(31,971)**	**10,038**	**1,734,963**
Increase in fair value of investment properties	**–**	**488,182**	**–**	**–**	**488,182**
Segment results after increase in fair value of investment properties	**1,643,142**	**601,936**	**(31,971)**	**10,038**	**2,223,145**
Unallocated cost of sales					**(85,753)**
Interest income					**18,993**
Losses on held for trading investments at fair value through profit or loss, net					**(14,446)**
Unallocated income					**7,277**
Unallocated expenses					**(425,249)**
Finance costs					**(81,460)**
Share of losses of a joint venture					**(249)**
Share of losses of an associate					**(201)**
Profit before tax					**1,642,057**

For the six months ended 30 September 2012 (Unaudited)	Property development *HK$'000*	Property investment *HK$'000*	Property management *HK$'000*	Hotel operation *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment revenue:						
Sales to external customers	2,362,004	100,524	21,283	12,864	10,643	2,507,318
Intersegment sales	–	–	–	18,402	–	18,402
	2,362,004	100,524	21,283	31,266	10,643	2,525,720
Elimination of intersegment sales						(18,402)
Revenue						2,507,318
Segment results before increase in fair value of investment properties	1,298,864	97,626	(19,951)	(2,848)	6,698	1,380,389
Increase in fair value of investment properties	–	387,538	–	–	–	387,538
Segment results after increase in fair value of investment properties	1,298,864	485,164	(19,951)	(2,848)	6,698	1,767,927
Unallocated cost of sales						(33,848)
Interest income						2,276
Losses on held for trading investments at fair value through profit or loss, net						(7,890)
Unallocated income						4,620
Unallocated expenses						(341,756)
Finance costs						(43,410)
Share of losses of associates						(170)
Profit before tax						1,347,749

4. OTHER INCOME AND LOSSES

	For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income		
Interest income from:		
Banks	**17,757**	979
Loan receivables	**1,236**	1,297
Contracted income in respect of the operation of hotel supporting entertainment facilities	**2,883**	1,652
Others	**4,394**	2,968
	26,270	6,896
Losses		
Losses on held for trading investments at fair value through profit or loss, net	**(14,446)**	(7,890)
Other income and losses	**11,824**	(994)
Fair value gains on investment properties	**488,182**	387,538

5. FINANCE COSTS

	For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings:		
Wholly repayable within five years	**288,767**	148,087
Wholly repayable beyond five years	**37,974**	17,384
Interest on senior notes	**201,037**	135,932
Interest on convertible notes	**51,405**	–
Less: Interest capitalised	**(497,723)**	(257,993)
Total	**81,460**	43,410

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation	**23,450**	12,679
Less: Depreciation capitalised in respect of properties under development	**(693)**	(383)
	22,757	12,296
Amortisation of prepaid land lease payments	**167**	94
Provision/(reversal of provision) for impairment of trade receivables*	**(26,888)**	34,256
Equity-settled share option expense	**29,150**	17,343
Write-back of impairment of investment in a joint venture *	**–**	(311)

* *Included in "Other expenses" in the interim condensed consolidated income statement.*

7. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30 September 2012: Nil). Taxes on profits assessable in Mainland China are calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the relevant income tax law, the PRC subsidiaries are subject to corporate income tax of a statutory rate of 25% (2012: 25%) on their respective taxable income during the period.

The PRC land appreciation tax ("LAT") 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 amortisation of land use rights, borrowing costs and all property development expenditures. The amount of LAT of HK$379,723,000 was charged to the interim condensed consolidated income statement for the six months ended 30 September 2013 (six months ended 30 September 2012: HK$222,251,000).

The major components of income tax expenses for the periods are as follows:

	For the six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current:		
Mainland China corporate income tax	**194,315**	299,425
LAT in Mainland China	**379,723**	222,251
Deferred:		
Mainland China corporate income tax	**101,318**	102,377
LAT in Mainland China	**(94,931)**	(55,563)
Withholding tax on dividend	**(121,757)**	41,356
Total tax charged for the period	**458,668**	609,846

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 September	
	2013	2012
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**964,603,000**	749,304,000

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**6,096,792,852**	6,001,268,918
Effect of dilution — weighted average number of ordinary shares:		
Share options	**62,241,375**	1,923,515
Convertible notes	**594,262,295**	–
	6,753,296,522	6,003,192,433

9. DIVIDENDS

At a meeting of the board of directors held on 25 November 2013, the directors resolved not to pay an interim dividend to shareholders (six months ended 30 September 2012: Nil).

10. TRADE RECEIVABLES

Trade receivables represent sales income, rental and service income receivables from customers which are payable on presentation of invoices or in accordance with the terms of the related sales and purchase agreements. The Group generally allows a credit period of not exceeding 60 days to its customers. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at each of the balance sheet dates, based on the payment due date and net of provision, is as follows:

	30 September 2013 *HK$'000* (Unaudited)	31 March 2013 *HK$'000* (Audited)
Within 1 month	**467,697**	554,520
1 to 2 months	**72,173**	97,758
2 to 3 months	**79,446**	97,650
Over 3 months	**304,087**	186,999
Total	**923,403**	936,927

Receivables that were neither past due nor impaired and past due but not impaired relate to a large number of diversified customers for whom there was no recent history of default. The Group would not release the property ownership certificates to the buyers before the buyers fully settle the payment.

11. TRADE AND OTHER PAYABLES

	Note	30 September 2013 *HK$'000* (Unaudited)	31 March 2013 *HK$'000* (Audited)
Other payables and accruals		**1,545,123**	916,752
Notes payables		**–**	453,677
Deposits and receipts in advance		**6,570,791**	3,792,892
Construction fee and retention payables	*(i)*	**3,945,839**	3,002,406
Total		**12,061,753**	8,165,727

(i) An aged analysis of the construction fee and retention payables as at the end of reporting period is as follows:

	30 September 2013 *HK$'000* (Unaudited)	31 March 2013 *HK$'000* (Audited)
Within one year	**3,789,113**	2,923,753
Over one year	**156,726**	78,653
Total	**3,945,839**	3,002,406

The construction fee and retention payables are non-interest-bearing and repayable within the normal operation cycle or on demand. The other payables are non-interest-bearing.

CHAIRMAN'S STATEMENT

On behalf of the Board of China South City Holdings Limited, together with its subsidiaries, I am pleased to report the unaudited interim results of the Group for the Period.

Results and Dividend

The Group continued its growth momentum during the Period, reporting Contracted Sales (including property sales in finance lease) surged 202.2% to HK$5,787.1 million (1HFY2012/13: HK$1,915.2 million) while revenue rising by 27.5% to HK$3,197.0 million (1HFY2012/13: HK$2,507.3 million). Core net profit (being profit for the Period less fair value gains on investment properties and its related tax effect) increased by 76.1% to HK$839.3 million (1HFY2012/13: HK$476.6 million), while profit attributable to owners of the parent reached HK$964.6 million (1HFY2012/13: HK$749.3 million), representing growth of 28.7%. Basic earnings per share reached HK15.82 cents (1HFY2012/13: HK12.49 cents).

The Board declared that there would be no distribution of an interim dividend for the six months ended 30 September 2013 (1HFY2012/13: Nil).

Review of the Market and Operations

Opportunities Presented by Industry Upgrade and Rapid Urbanization in China

The Chinese government is focusing its attention on the new urbanization strategies promulgated during the "12th National Congress" and is highlighting the strategic importance of modern logistics to promote industry upgrade and urbanization in the 12th National Five-Year Plan. On the industry upgrade front, governments at the local and provincial levels are expediting the relocation and consolidation of old, single-industry wholesale markets from prime urban locations to the outskirts of cities so as to create large-scale wholesale and trading platform providing fully integrated procurement and logistics services and to reduce costs. Governments have been introducing various supporting measures to optimize urban space through the acceleration of urbanization. This has translated into catalysts for commercial activity, resulting in stronger demand for well-regarded integrated logistics and trade centers.

As a leading developer and operator of large-scale, integrated logistics and trade centers in China, China South City is poised to capitalize on the tremendous opportunities arising from such a favorable development environment. With its niche positioning, the Group enjoys a win-win situation backed by strong local government support, especially in the logistics and transportation infrastructure in the cities in which the Group operates, while contributing to the country's transformation. Adding on its strong execution capability and established brand name, the Group continued to deliver remarkable sales performance in 1HFY2013/14 brought by the successful replication of its unique business model in various provincial capitals. During the Period, the Group's projects are by and large on schedule and recorded Contracted Sales of approximately HK$5,787.1 million, up 202.2% year-on-year (1HFY2012/13: HK$1,915.2 million) and accounting for 52.6% the Group's annual sales target of HK$11.0 billion for the fiscal year ending 31 March 2014 ("FY2013/14" or the "Year"). While more new projects are being rolled out for sales and operation with the aim of generating higher revenue, the acceleration in urbanization in China and growing demand for industrial materials and finished goods from various industries are opening up ample room for the sustainable growth of the Group.

The Group currently has seven projects – China South City Shenzhen ("CSC Shenzhen"), China South City Nanchang ("CSC Nanchang"), China South City Nanning ("CSC Nanning"), China South City Xi'an ("CSC Xi'an"), China South City Harbin ("CSC Harbin"), China South City Zhengzhou ("CSC Zhengzhou") and China South City Hefei ("CSC Hefei"), in regional economic hubs in China in the pipeline, underscoring its mounting ambition to grasp the vast opportunities arising from the fast-growing provincial capitals in China and to better align its business operations with the long-term economic development plans of these regions. Riding on its outstanding execution capability and strong governmental support, soon after the signing of a cooperative agreement with the local government on 1 December 2012 involving the development of a large-scale, integrated logistics and trade center in Hefei, the Group successfully bid for the first plot of land for CSC Hefei in May 2013. The groundbreaking ceremony was held on 28 June 2013, and pre-sale activities were swiftly launched in November 2013 and recorded outstanding results with approximately RMB880 million of deposit received which indicated a strong demand for trade center and is expected to be converted into Contracted Sales of approximately HK$4.5 billion the coming months.

The Group is committed to achieving sustainable business growth by a strengthened capital base. With the support from international and domestic banks and investors, the Group is able to access diversified financing resources. Apart from its onshore bank loans, the Group drew down a HK$500 million unsecured loan with the HSBC in October 2013. In April 2013, PAG, one of the leading alternative investment fund management groups in Asia with extensive experience in investing in the region's capital markets and property sectors, made a strategic investment in the Group by purchasing HK$975 million in convertible notes. These successful financing activities and strategic investment demonstrate the strong vote of confidence of the capital market and the banks in the Group's sound business model, distinctive operational capabilities, and growth potential.

Expanded Ancillary Services to Support Core Business

The Group continued to enhance its five supporting pillars of ancillary services – namely (i) outlet operation and management; (ii), e-commerce platforms, (iii) warehousing, on-site delivery and freight forwarding services, (iv) property management and (v) convention and exhibition services – that complement its core business of developing and operating trade centers in a bid to build a self-sustaining business operations model.

With more projects launching for trial operation in the fourth quarter of FY2013/14 ("Q4FY2013/14"), the growing importance of the five supporting pillars is increasingly evident. For instance, the demand in property management will be boosted along with the new trade centers' operation. Warehousing and freight forward services have already commenced operations at CSC Nanning immediately after the completion of construction of its warehouse. Also, CSC Nanchang has been appointed as "Model Base of E-commerce of Jiangxi Province" by the provincial department of commerce, following CSC Shenzhen being appointed as "Model Unit of E-commerce" by the municipal government. In addition to offering sales of valued products of approximately 150 brands in the outlet center at CSC Shenzhen, the Group also plans to launch outlet centers at CSC Nanning, CSC Nanchang and CSC Xi'an from Q4FY2013/14. Also, riding on a non-stop exhibition platform for promoting trade in joint efforts with the local governments, the Group continued to organize various trade fairs, including the signature annual China-ASEAN Light Industrial Products Fair at CSC Nanning in September 2013. In April 2013, the "Hong Kong, Macau and Taiwan Commodity Fair" was held at CSC Nanchang for the first time, marking the first municipal event to be held at this project. By raising the Group's profile through such events, it helps to facilitate traffic flow, enhance its brand recognition, showcase the strengths of its projects, and expand its customer base and network.

Prospects

Looking ahead, greater attention will invariably be paid to modern logistics and urbanization as set out in the 12th National Five-Year Plan. China South City – a well-established integrated logistics and trade centers developer and operator – will continue to play an important role in assisting local governments in the process of urbanization and industry upgrade, and will in turn benefit from the substantial opportunities brought by such process and the stronger domestic demand.

The Group will further leverage its unique and replicable business model, excellent operational capabilities and solid project pipelines to capture the enormous market opportunities arising in this favorable environment. Along with having more projects set to launch for sales and commence operation and enhance revenue contribution, the Group is optimistic about sustaining its growth momentum and exceeding its annual sales target of HK$11.0 billion by the end of FY2013/14.

Backed by its strong financial position and the remarkable performance of its existing projects, the Group will be prudent in identifying potential provincial cities to replicate its business model and to capture emerging investment opportunities with the aim of generating greater return for its valued shareholders.

Lastly, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, investors, customers and business partners for their trust and unwavering support. I would also like to thank our management and staff for their professionalism and dedication.

Cheng Chung Hing
Co-Chairman & Executive Director

Hong Kong, 25 November 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

With the Chinese government putting emphasis on accelerating urbanization, industry upgrade and modern logistics, as a leading developer and operator of large-scale, integrated logistics and trade centers in China, China South City is set to enjoy favorable national policies and to capture the huge opportunities presented by industry upgrade and urbanization.

Fuelled by the successful replication of its unique business model nationwide, a more diversified project portfolio, and established brand equity, the Group continued its growth momentum in 1HFY2013/14. Revenue rose by 27.5% to HK$3,197.0 million (1HFY2012/13: HK$2,507.3 million) during the Period. The Group achieved impressive growth since the launch of each of its projects, with Contracted Sales recorded remarkable surge to approximately HK$5,787.1 million during the Period, up 202.2% year-on-year (1HFY2012/13: HK$1,915.2 million) and accounting for 52.6% of the Group's annual sales target of HK$11.0 billion for the Year.

Details on Contracted Sales for 1HFY2013/14 are shown in the table below:

	Contracted area *(sq. m.)*	**Average Selling Price ("ASP") (before deduction of business tax)** *(HK$/sq. m.)*	**Contracted amount (before deduction of business tax)** *(HK$' million)*	**Project Contribution**
CSC Shenzhen	**17,900**	**15,800**	**283.1**	**4.9%**
Trade center (Mall)[1]	5,800	27,100	157.8	2.7%
Office	3,300	12,000	39.1	0.7%
Residential property	8,800	9,800	86.2	1.5%
CSC Nanchang	**47,000**	**16,100**	**756.9**	**13.0%**
Trade center (Mall)	45,200	16,400	743.4	12.8%
Residential property	1,800	7,600	13.5	0.2%
CSC Nanning	**35,200**	**8,500**	**298.5**	**5.2%**
Trade center (Mall)	5,100	16,800	86.1	1.5%
Residential property	30,100	7,100	212.4	3.7%
CSC Xi'an	**145,900**	**9,600**	**1,405.5**	**24.3%**
Trade center (Mall)	32,400	14,200	457.9	7.9%
Trade center (Detached)[2]	113,500	8,300	947.6	16.4%
CSC Zhengzhou	**229,400**	**8,300**	**1,896.6**	**32.8%**
Trade center (Detached)	229,400	8,300	1,896.6	32.8%
CSC Harbin	**151,500**	**7,600**	**1,146.5**	**19.8%**
Trade center (Detached)	151,500	7,600	1,146.5	19.8%
Total	**626,900**	**N/A**	**5,787.1**	**100%**

Notes: (1) Refer to multi-storey trade centers in shopping mall style.

(2) Refer to standalone low-rise trade center shops.

Diversified Project Portfolio to Support a Sustainable Business Growth

With the aim of broadening the Group's revenue stream and to support sustainable business growth, China South City strives to strengthen its presence in fast growing economic regions in China to tap the opportunities presented by urbanization and industry upgrade. At present, the Group has a diversified project portfolio with seven large-scale integrated logistics and trade center projects at different stages of development in China's fast-growing provincial capitals. Phase III of CSC Shenzhen and the first phases of CSC Nanchang, CSC Nanning, CSC Xi'an, CSC Zhengzhou, CSC Harbin and CSC Hefei achieved good progress during the period under review. With respect to Hefei project, the Group successfully acquired the first batches of land for CSC Hefei in May 2013, merely six months after the signing of a cooperative agreement with the local government. The ground-breaking ceremony was then held in June 2013 and the first pre-sale was expeditiously launched in November the same year to receive an overwhelming market response.

In view of the prospect of development of home furnishing business in China and to speed up the pace of establishing this business across its projects, the Group entered into a subscription agreement on 29 July 2013 to acquire 75% of the issued share capital upon completion of the subscription of HOBA Furnishing, we expect the business of HOBA Furnishing to create synergies with the Group's current operation and satisfy the needs of development plan of China South City.

Land Bank

During the Period, the Group acquired land with a total attributable gross floor area ("GFA") of approximately 4,402,000 sq. m., increasing the Group's land bank to an attributable GFA of approximately 22.3 million sq. m..

Details of project land bank as of 30 September 2013 are shown in the table below:

	Completed Properties		**Properties under Development**	**Properties Planned for Future Development**	**Total Planned GFA**	**Attributable GFA Acquired**
(in sq. m.)	Sold	Unsold		Estimated	Estimated	
CSC Shenzhen	654,100	1,148,100	185,000	656,800	2,644,000	2,644,000
CSC Nanchang	567,500	195,500	357,700	3,159,300	4,280,000	4,280,000
CSC Nanning	130,000	695,000	567,000	3,488,000	4,880,000	2,480,000
CSC Xi'an	436,300	462,400	461,200	16,140,100	17,500,000	2,506,000
CSC Harbin	–	–	773,000	11,227,000	12,000,000	2,231,000
CSC Zhengzhou	–	–	1,782,100	10,217,900	12,000,000	4,215,000
CSC Hefei	–	–	910,000	11,090,000	12,000,000	3,941,000
Total	**1,787,900**	**2,501,000**	**5,036,000**	**55,979,100**	**65,304,000**	**22,297,000**

Strong Financial Position with Wide Financing Channels

To sustain the growth momentum in its development, the Group continued to strengthen its financial position as pursuing its strategic objectives. The vote of confidence cast by the capital market and banks in the Group's sound business model, outstanding operational capabilities and promising growth potential has been unswerving. This is demonstrated by the Group's ready access to diversified financing channels through international and domestic banks, debt market as well as institutional strategic investors.

The Group continues to be well supported by domestic banks with funding cost range from 5.40–7.38% per annum. Aside from the onshore bank loan, the Group drew down a two-year unsecured loan of HK$500 million with HSBC in October 2013, at an interest rate of HIBOR + 2.75% per annum. In April 2013, the Group introduced PAG, a leading alternative investment fund management group in Asia with extensive experience in investing in the region's capital markets and property sectors, to make a strategic investment in China South City by purchasing HK$975 million convertible notes at coupon rate of 6.5% per annum due in 2018.

Supported by the remarkable sale performance of all the existing projects, together with a wide spectrum of financing sources, the Group established a healthy financial profile with ample liquidity.

Five Pillars of Ancillary Services

To keep pace with its projects in Nanchang, Nanning and Xi'an slated for trial operation in Q4FY2013/14, the Group continued to enhance its five pillars of ancillary services with the valuable experience gained from CSC Shenzhen, in a bid to complement its unique and replicable business model, to better serve its trade center occupants and customers, and to allow them to enjoy a mutually-beneficial operation environment.

Outlet Operation and Management

The outlet team of the Group is committed to bringing in value branded goods and to boosting overall traffic flow. The Group opened its first outlet center in CSC Shenzhen in April 2011 mainly featuring global sportswear and outdoor brands initially, but it now accommodates about 150 brands of sportswear, causal and outdoor wear, men's and women's fashion, kid's wear and travel products, occupying approximately 49,700 sq.m.. Building on the successful opening of the outlet center at CSC Shenzhen, the Group continues to expand and replicate this business further at its other projects. The outlet centers at CSC Nanning, CSC Nanchang and CSC Xi'an scheduled for trial operation in Q4FY2013/14; renowned brands of different themes that have already committed to join include but not limit to Nike, Adidas, 361°, Crocs, Etam, Me&City, etc.

E-commerce Platforms

Through its online platform (CSC86.com), the Group provides our trade center shops operators and SMEs of the related industries with a reliable supply and demand platform which facilitates trading with the combined advantages of physical stores and virtual shops. With more projects slated for operation successively, the quantity and variety of goods available on its online platform are expected to increase accordingly.

Following CSC Shenzhen being appointed as a "Model Unit of E-commerce" by Municipal Government of Shenzhen, CSC Nanchang has also been appointed the "Model Base of E-commerce of Jiangxi Province" by Department of Commerce of Jiangxi Province, recognizing its role in the development of e-commerce business in the region, demonstrating the governmental support for our project.

One-stop logistics services

In view of the projects' enlarging scale of operation and the growing demand from our customers, the service range of the Group's logistic services will be extended from the operation and management of warehouses and freight forward markets to online management platform and supply chain management services, with the aim to building a logistics management platform across our projects via both on-site warehousing and logistics services, and a nationwide logistics information network.

Currently, CSC Shenzhen runs warehousing, freight forward markets, as well as on-site third-party delivery and distribution services. Besides, a GFA of approximately 185,000 sq. m. of logistics facilities is under reconstruction, including warehouses of a GFA of 78,000 sq. m. and freight forwarding market and other facilities of 107,000 sq. m. With more projects slated for trial operation successively, teams specialized in logistics services have been stationed on spot. With the completion of warehouses and freight forward market, the logistics service in CSC Nanning commenced operation in 1HFY2013/14.

Property Management

With an aim of ensuring project safety and sustainability, the Group has established property management teams to be stationed at the projects when construction commences so as to provide professional advice and to take into account the sustainability and specific needs at each project in order to ensure its smooth operation after completion of construction. In addition, the Group has entered into management agreement with our trade center shops occupant for property management service. This will allow a better management and service on each of our projects, and in turn become a source of income to the Group. The Group endeavors to differentiate its projects from other wholesale markets by stepping up efforts to strengthen standards of fire prevention, security, environmental stewardship, maintenance services as well as the management of transportation and parking lots at each of its project sites.

Convention and Exhibition Services

Through its non-stop exhibition platform aimed at promoting trade and through joint efforts with local governments to attract international and regional exhibitors and to enhance traffic and business flow to its trade centers, the Group continued to organize signature regional exhibitions and conventions. Events and activities of various natures were also arranged by the Group itself to promote the businesses and traffic of its trade centers.

Major Trade Fairs at a Glance

China-ASEAN Light Industrial Products Fair

The 10th China-ASEAN Light Industrial Products Fair, co-organized by the Ministry of Commerce of China and its ASEAN counterparts plus the China-ASEAN Expo Secretariat and hosted by the government of the Guangxi Zhuang Autonomous Region, was held at CSC Nanning in September 2013. The fair, covering an exhibition area of approximately 100,000 sq. m., attracted about 1,200 exhibitors (2012: 980) and approximately 960,000 domestic and international visit counts (2012: 620,000). This annual event further enhanced the Group's brand recognition in the region as well as among the ASEAN members.

Spring Tea Festival at CSC Nanning

For the up and coming trial operation at CSC Nanning, the Group proactively organizes trade fairs and events to draw attention from the market and boost traffic flow. CSC Nanning organized the Spring Tea Festival, held between 28 April and 2 May 2013, which showcased an array of tea and tea wares. This commercial trade fair received an overwhelming response, attracting over 150,000 visit counts.

Hong Kong, Macau and Taiwan Commodity Fair

Followed by the success of the Hong Kong, Macau and Taiwan Commodity Fair co-organized by the Trade Development Bureau of Ministry of Commerce and the Group at CSC Shenzhen in September 2012, the Trade Development Bureau of Ministry of Commerce, the Group, together with the Municipal Government of Nanchang, held the same event at CSC Nanchang from 28 April to 2 May 2013. The fair, which covered an area of 55,000 sq. m., drew approximately 740,000 visit counts. Accommodating exhibitors from these three cities, the fair successfully promoted cross-regional trade and facilitated traffic flow at CSC Nanchang.

Jiangxi Provincial Commodities Fair

Leveraging on its exhibition platform and experience, the Group also co-organized the first Jiangxi Provincial Commodities Fair ("江西省地方特色商品博覽會") with the Department of Commerce of Jiangxi Province in October 2013, attracted about 300 exhibitors and approximately 1,106,000 visit counts, which further promote the brand name of China South City in the regions as well as regional trade activities at Nanchang.

These five interdependent service pillars, coupled with our trade centers, provide an integrated platform for our trade center tenants and their customers from which they can access a comprehensive range of trade, logistics and supporting services at our seven leading projects.

China South City Shenzhen

CSC Shenzhen, the Group's first-ever project, is strategically located in the heart of the Pearl River Delta region amid an extensive transportation network. Occupying a site area of approximately 1.06 million sq. m., the project comprises a planned total GFA of approximately 2.64 million sq. m.. As of 30 September 2013, the trade center and ancillary facilities at Phase I, Phase II and part of Phase III, with a total GFA of approximately 1.80 million sq. m., were in operation.

CSC Shenzhen phase I houses suppliers of five key mutually-complementary light industries materials: textile and clothing, leather and accessories, electronics, printing, paper and packaging, and metals, chemicals and plastics. To cope with the development of CSC Shenzhen and surrounding regions, phase II and phase III has an expanded product range from raw materials to finished products, themed into outlet center, tea and tea wares, dried and non-staple food, clothing and fashion, home textile products, etc.

CSC Shenzhen is currently in its phase III development with a total planned GFA of approximately 1.2 million sq. m., including 842,000 sq. m. of trade centers, 330,000 sq. m. of logistics facilities and 52,000 sq. m. of office facilities. Following the completion of the office facilities in 2012, a multi-functional trade center complex designed for the trading of electronic goods, gadgets and accessories with a planned total GFA of 330,000 sq. m. was also launched in March 2013. The reconstruction of a GFA of 185,000 sq. m. of logistics facilities is currently underway, so as to cater to the increasing demand for quality logistics services provided by CSC Shenzhen.

CSC Shenzhen continued its promising results during the Period with total Contracted Sales of HK$283.1 million (1HFY2012/13: HK$55.6 million), including a GFA of 5,800 sq. m. of trade center units at an ASP of HK$27,100/sq. m. (1HFY2012/13: total GFA of 300 sq. m. at an ASP of HK$18,100/sq. m), and a GFA of 3,300 sq. m. of office units at an ASP of HK$12,000/sq. m. (1HFY2012/13: total GFA of 3,300 sq. m. at an ASP of HK$10,600/sq. m), as well as a GFA of 8,800 sq. m. of residential properties at an ASP of HK$9,800/sq. m. (1HFY2012/13: total GFA of 2,000 sq. m. at an ASP of HK$7,700/sq. m).

For 1HFY2013/14, the Group recorded a 14.2% increase in rental income to HK$114.8 million as compared to 1HFY2012/13, mainly due to rental increases resulting from tenancy renewals and new lease contracts signed at CSC Shenzhen during the Period. As at 30 September 2013, the total occupancy rate and rental rate of phase I trade center and shops was 95% and HK$44/sq. m. (As at 30 September 2012: 96% at HK$36/sq. m.). The total occupancy rate of the launched rentable GFA of phase II trade center and shops reached 60% at HK$37/sq. m. (As at 30 September 2012: 51% at HK$34/sq. m.).

China South City Nanchang

Situated in Nanchang, the capital city of Jiangxi Province, CSC Nanchang takes full advantage of its strategic location at one of China's major transportation hubs to operate as a dynamic integrated logistics trading platform for the Pan Pearl River Delta and Yangtze River Delta regions. Located at the intersection of the Jingjiu and Zhegan Railways, the site is readily accessible to suppliers, manufacturers and merchants via major highways, the largest port on the Gan River and a complete freight network which includes a cargo marshal yard, a container terminus and an international airport, coupled with Nanchang West Railway Station – a principal high speed rail station located just 1.2 km from CSC Nanchang commenced operation successively from September 2013. In addition, the Jiangxi Provincial Government plans to relocate its offices to an area within merely 2 km from our project site in 2014, which favors CSC Nanchang by improving the potential for business at the trade centers and the surrounding supporting facilities.

With a site area of approximately 1.54 million sq. m. and a total planned GFA of approximately 4.28 million sq. m., CSC Nanchang is in phase I of construction and will have a planned GFA of 1.12 million sq. m., including 708,000 sq. m. of trade centers, 383,000 sq. m. of supporting residential facilities and 29,700 sq. m. of warehousing and logistics facilities. Having a GFA of 380,000 sq. m. trade centers which serve clothing, footwear and small commodities, and Phase I residential facilities completed and delivered successively, construction of the remaining GFA of 328,000 sq. m. of phase I trade centers is progressing as scheduled. Phase I warehousing and logistics facilities is also expected to commence construction in this fiscal year. Meanwhile, phase II of development is currently at the planning stage. CSC Nanchang, is slated for trial operation for clothing and accessories, daily necessities and small commodities in the Q4FY2013/14, is expected capture the synergy effect brought by the opening of the Nanchang West Railway Station, as well as the development in the region to be brought by the relocation of Jiangxi Provincial Government's offices to a site adjacent to the project in the coming year.

In 1HFY2013/14, CSC Nanchang recorded total Contracted Sales of HK$756.9 million (1HFY2012/13: HK$1,079.7 million), including a GFA of 45,200 sq. m. of trade centers sold at an ASP of HK$16,400/sq. m. (1HFY2012/13: total GFA of 44,800 sq. m. at an ASP of HK$13,600/sq. m.) and a GFA of 1,800 sq. m. of ancillary residential facilities sold at an ASP of HK$7,600/sq. m. (1HFY2012/13: total GFA of 64,800 sq. m. at an ASP of HK$7,300/sq. m.).

China South City Nanning

CSC Nanning is situated in Nanning, the capital city of the Guangxi Zhuang Autonomous Region and a critical gateway between China and ASEAN countries, and is easily accessible to railway stations, highways and an international airport. Strategically located in close proximity to Southeast Asia to take advantage of a tariff waiver on cross-border trade activities within the China-ASEAN Free Trade Area, CSC Nanning endeavors to serve as a key hub for cross-border trade to cater to the strong demand from the Northern Bay Region and Southeast Asia.

CSC Nanning has a planned net land area of approximately 1.83 million sq. m. and a planned total GFA of approximately 4.88 million sq. m.. Phase I covers a total planned GFA of approximately 1.39 million sq. m., comprising approximately 899,000 sq. m. of logistics trade centers, 465,000 sq. m. of residential facilities and 31,000 sq. m. of warehousing and logistics facilities. While a GFA of approximately 329,000 sq. m. of phase I trade centers, serving the machinery and hardware, leather goods, clothing and textile industries, was completed in the previous fiscal year, phase I residential facilities was completed during the Period. The remaining trade centers of GFA of 220,000 sq. m. planned for outlets, tea and tea wares, ASEAN products and showrooms, and 347,000 sq. m., planned for housewares and furnishing products, are under construction. Along with the smooth progress in construction, parts of the trade centers are slated for trial operation in the fourth quarter of this fiscal year. To cope with the growing demand for one-stop logistics services with the launch of trade centers, the warehouses and freight forward market of a GFA of approximately 31,000 sq. m. at CSC Nanning has been completed and launched for operation during the Period.

In 1HFY2013/14, CSC Nanning generated Contracted Sales of HK$298.5 million (1HFY2012/13: HK$396.7 million), with a total GFA of 5,100 sq. m. of trade centers sold at an ASP of HK$16,800/sq. m. (1HFY2012/13: Total GFA of 25,500 sq. m. at an ASP of HK$15,600/sq. m.) and a total GFA of 30,100 sq. m. of residential units sold at an ASP of HK$7,100/sq. m. (1HFY2012/13: Nil).

China South City Xi'an

CSC Xi'an is strategically situated in the Xi'an International Trade and Logistics Park in Shaanxi Province, and enjoys access to an extensive transportation network connected to a railway container terminal and the largest bonded area in the northwestern region of China, along with two planned subway lines that cross the project site, of which one of the subway stations next to the phase I buildings is currently under construction. CSC Xi'an is a joint venture between the Group and Shenzhen Shi Tai Xin Heng Xiang Investment Limited (previously known as Shenzhen Shi Hao De Tien Cheng Investment Limited), which owns 65% and 35% stake in the joint venture respectively.

CSC Xi'an has a planned total site area of approximately 10.0 million sq. m. and a total planned GFA of approximately 17.5 million sq. m.. Phase I has a total planned GFA of approximately 1.95 million sq. m., which includes 554,000 sq. m. of trade centers mainly for fashion, clothing and accessories, 1.34 million sq. m. of trade centers mainly for the machinery and hardware industries, and 54,000 sq. m. for warehousing and logistics facilities. A GFA of 620,300 sq. m. trade center completed in FY2012/13, followed by a GFA of 278,400 sq. m. trade center completed during the Period. Construction of the remaining GFA of 461,200 sq. m. trade centers will commence in 2HFY2013/14. With the gradual completion and delivery of phase I trade centers properties, trade center serving fashion, clothing, leather goods and outlets is set to commence trial operation in Q4FY2013/14.

In 1HFY2013/14, a total of HK$1,405.5 million in Contracted Sales (1HFY2012/13: HK$383.2 million) was generated from trade centers, including a total GFA of 32,400 sq. m. of trade centers (mall) at an ASP of HK$14,200/sq. m. (1HFY2012/13: total GFA of 21,000 sq. m. at an ASP of HK$14,100/sq. m), and a total GFA of 113,500 sq. m. of trade centers (detached) for at an ASP of HK$8,300/sq. m. (1HFY2012/13: total GFA of 9,900 sq. m. at an ASP of HK$8,800/sq. m.).

China South City Harbin

Located in the Daowai district of Harbin, the capital city of Heilongjiang Province, CSC Harbin fully leverages its advantageous location in northeast China, a premier hub for cross-border trade with countries in northeast Asia, and its proximity to the China-Russia border to tie in with economic activities within and across the region. Tapping the opportunities arising from the area's emerging development potential, CSC Harbin will endeavor to become the largest integrated logistics trade center in northeast China.

CSC Harbin has a planned site area of approximately 10.0 million sq. m. and a planned total GFA of approximately 12.0 million sq. m.. Phase I has a total planned GFA of 1.57 million sq. m. comprising 1.07 million sq. m. of trade centers and 497,000 sq. m. of ancillary facilities. At present, a planned GFA of approximately 773,000 sq. m. of trade centers is under construction. This includes a trade center of a GFA of 436,000 sq. m. covering various industries – outlets, leather goods and accessories, bath and kitchen wares, home appliances, housewares and furnishing products, and boutique shops – plus a GFA of 337,000 sq. m. trade centers targeted for the machinery and hardware, and construction materials industries.

In 1HFY2013/14, driven by an encouraging market response during pre-sales of the low-rise detached shops, a total GFA of 151,500 sq. m. was sold at an ASP of HK$7,600/sq. m, generating Contracted Sales of HK$1,146.5 million (1HFY2012/13: Nil).

China South City Zhengzhou

CSC Zhengzhou is located in Zhengzhou, the capital city of Henan Province, which is highly accessible and enjoys extensive transportation networks – it is a mere 16 km away from Zhengzhou Xinzheng International Airport and only a couple of kilometers away from the Beijing-Guangzhou Railway Freight Station and Beijing-Hong Kong-Macao Highway. CSC Zhengzhou is poised to cater to the strong demand for integrated logistics and trade centers driven by the burgeoning trading business in China's interior regions by providing a convenient trading platform to promote trade among cities in central China. Furthermore, the project caters to the thriving demand for the relocation of existing wholesale markets in the city by better aligning its business operations with the municipal government's urbanization plan for the region being pushed forward between 2012 and 2015.

CSC Zhengzhou has a total net land area of approximately 7.0 million sq. m. and a total planned GFA of 12.0 million sq. m.. With a planned GFA of approximately 4.0 million sq. m., phase I trade centers are expected to cover six industries, namely construction materials, machinery and hardware, auto parts, small commodities, household goods, and non-staple food and seasonings. Currently a GFA of approximately 1.78 million sq. m. is under construction, which comprises 500,000 sq. m. of trade centers targeted for small commodities, and 1.28 million sq. m. of trade centers targeted for machinery and hardware, construction materials, auto parts, etc..

In 1HFY2013/14, the low-rise detached trade center shops at CSC Zhengzhou were launched for presale and received an enthusiastic response. A total GFA of 229,400 sq. m. was sold at an ASP of HK$8,300/sq. m., generating Contracted Sales of HK$1,896.6 million (1HFY2012/13: Nil).

China South City Hefei

Situated in Hefei, the capital city of Anhui Province, a transport and economic hub at the heart of eastern China, CSC Hefei benefits from its strategic location in the Hefei Taohua Industrial Park, its well-developed infrastructure, as well as an extensive transportation system that includes railways, highways and river transport across China.

CSC Hefei has a planned total net land area of approximately 10.0 million sq. m. and a planned GFA of 12.0 million sq. m.. Phase I has a total planned GFA of 3.87 million sq. m. comprising 2.94 million sq. m. of trade centers and 926,000 sq. m. of ancillary residential facilities. In May 2013, the Group successfully bid for the first batch of land for CSC Hefei with an attributable GFA of 3.94 million sq. m.. Phase I construction commenced soon after the groundbreaking ceremony held on 28 June 2013. Trade centers of GFA of approximately 910,000 sq. m. is currently under construction, which comprises 150,000 sq. m. covering leather and accessories, and 760,000 sq. m. targeted for machinery and hardware and construction materials industries.

To attract quality tenants and promote CSC Hefei's trade centers, pre-marketing of the project was organized during the Period in order to allow CSC Hefei to realize higher demand for its trade centers, which brought forward fervent market response at it first pre-sale launch in November 2013. A deposit of RMB880.0 million was collected during the Pre-sale, which is expected to convert into Contracted Sales of approximately HK$4.5 billion in a couple of months.

FINANCIAL REVIEW

For the six months ended 30 September 2013, the Group reported stable growth in its financial performance, with revenue growth of 27.5% to HK$3,197.0 million (six months ended 30 September 2012: HK$2,507.3 million), net profit for the period up 60.4% to HK$1,183.4 million (six months ended 30 September 2012: HK$737.9 million) and profit attributable to owners of the parent for the period up 28.7% to HK$964.6 million (six months ended 30 September 2012: HK$749.3 million). Excluding the effects of fair value gains on investment properties and related tax effect, net profit for the period as adjusted increased by 76.1% to HK$839.3 million (six months ended 30 September 2012: HK$476.6 million), and net profit attributable to owners of the parent for the period as adjusted increased by 27.1% to HK$620.5 million (six months ended 30 September 2012: HK$488.0 million). Basic earnings per share increased to HK15.82 cents (six months ended 30 September 2012: HK12.49 cents).

Revenue

Revenue increased by 27.5% to HK$3,197.0 million (six months ended 30 September 2012: HK$2,507.3 million). The increase was mainly due to the delivery of newly completed properties at our Xi'an and Nanning projects during the period under review, and the growing demand for our trade center units.

	For the six months ended 30 September		
	2013	2012	**Change**
	HK$'000	*HK$'000*	%
Sales of properties	**2,880,328**	2,331,991	**23.5%**
Sales of trade centers	***2,463,850***	*955,580*	***157.8%***
Sales of residential properties	***416,478***	*1,376,411*	***(69.7%)***
Finance lease income	**118,219**	30,013	**293.9%**
Rental income	**114,755**	100,524	**14.2%**
Property management service income	**33,572**	21,283	**57.7%**
Hotel income	**–**	12,864	**(100.0%)**
Other fee income	**50,103**	10,643	**370.8%**
	3,196,977	2,507,318	**27.5%**

Revenue from Sales of Properties

Revenue from sales of properties increased by 23.5% to HK$2,880.3 million (six months ended 30 September 2012: HK$2,332.0 million). The increase was mainly due to the delivery of newly completed properties at our Xi'an and Nanning projects during the period under review, and the growing demand for our trade center units. Sales for each project are as follows:

	ASP (before deduction of business tax) (HK$/sq. m.)		GFA sold (sq. m.)		Sales revenue (before deduction of business tax) (HK$ million)		Sales revenue (net of business tax) (HK$ million)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
CSC Shenzhen	**27,100**	18,100	**5,800**	300	**157.8**	5.9	**149.0**	5.5
CSC Xi'an	**9,000**	–	**259,000**	–	**2,329.9**	–	**2,197.5**	–
CSC Nanning								
— Trade center units	**16,800**	15,600	**5,100**	25,500	**86.1**	396.7	**81.3**	374.5
— Residential properties	**6,900**	–	**62,200**	–	**427.6**	–	**403.7**	–
CSC Nanchang								
— Trade center units	**16,700**	13,600	**2,300**	44,800	**38.2**	609.7	**36.0**	575.5
— Residential properties	**7,600**	6,200	**1,800**	234,600	**13.6**	1,458.1	**12.8**	1,376.5
Total	**N/A**	N/A	**336,200**	305,200	**3,053.2**	2,470.4	**2,880.3**	2,332.0

Finance Lease Income

Finance lease income, derived from the leasing of office towers and residential properties, increased by approximately 293.9% to HK$118.2 million (six months ended 30 September 2012: HK$30.0 million). The increase was primarily attributable to the increase in demand for office and residential units of Plaza 5 at CSC Shenzhen during the period under review.

During the period under review, the Group entered into finance lease arrangements with tenants for approximately 12,100 sq. m. (six months ended 30 September 2012: 3,600 sq. m.) at an average price of HK$10,400/sq. m. (six months ended 30 September 2012: HK$8,800/sq. m.).

Rental Income

Rental income increased by 14.2% to HK$114.8 million (six months ended 30 September 2012: HK$100.5 million). The increase was attributable to the continuous increase in rental income from phase I and II trade center units of CSC Shenzhen.

Occupancy at CSC Shenzhen has been driven by the demand for large-scale integrated logistics and trade center facilities and the growing profile of China South City. As at 30 September 2013, the total occupancy rate of phase I trade center units and shops remained stable at approximately 95% (30 September 2012: 96%), while the total occupancy rate of phase II trade center units and shops increased to 60% (30 September 2012: 51%) of the launched area. The average effective monthly rental rate for phase I and phase II trade center units and shops were approximately HK$44/sq. m. (30 September 2012: HK$36/sq. m.) and HK$37/sq. m. (30 September 2012: HK$34/sq. m.) respectively.

Property Management Service Income

Income from property management services rose by 57.7% to HK$33.6 million (six months ended 30 September 2012: HK$21.3 million). The increase in income was mainly due to the rising contribution of property management fees from CSC Shenzhen phase II trade centers and supporting facilities with an increase in the total occupancy rate of launched area of up to 60% as at 30 September 2013.

Hotel Income

The Group has leased out its hotel properties to a third party operator since September 2012. Accordingly, no hotel operating income was generated during the period under review.

Other Fee Income

Other fee income rose by 370.8% to HK$50.1 million (six months ended 30 September 2012: HK$10.6 million) during the period under review. The increase was mainly contributed by the outlet center operation, which added HK$39.2 million (six months ended 30 September 2012: HK$5.0 million) and warehousing services, which contributed HK$5.0 million (six months ended 30 September 2012: HK$3.7 million) during the period under review.

The increase in income from outlet center operation was mainly due to the growth in outlet operations and the increase in operating area during the period under review.

Cost of Sales

The Group's cost of sales mainly includes construction costs of properties sold, construction costs of properties held for finance lease and rental expenses. Cost of sales increased by 33.3% to HK$1,547.8 million (six months ended 30 September 2012: HK$1,160.8 million) during the period under review.

The increase was in line with the area of properties sold and properties entered into finance lease contracts during the period under review.

Gross Profit

Gross profit increased by 22.5% to HK$1,649.2 million (six months ended 30 September 2012: HK$1,346.5 million). The decline in gross profit margin to 52% during the period under review (six months ended 30 September 2012: 54%) was mainly due to the change in product mix with the addition of new projects generating sales. During the period under review, a large portion of sales revenue was recognized for trade center units sold in our new projects. At the early stages of sales launched by our new projects, the Group usually set a lower price so as to allow customers to have more room for future price appreciation. Accordingly, gross profit margin is usually lower than those at more matured projects.

Other Income and Losses

Other income and losses amounted to a net gain of HK$11.8 million for the six months ended 30 September 2013 compared to a net loss of HK$1.0 million for the six months ended 30 September 2012. The change was mainly due to an increase in bank interest income earned during the period under review.

Fair Value Gains on Investment Properties

The fair value gains on investment properties increased by 26.0% to HK$488.2 million (six months ended 30 September 2012: HK$387.5 million). The increase was mainly contributed by new properties at CSC Harbin and CSC Zhengzhou and the stable growth of existing properties at CSC Shenzhen and CSC Nanning.

Selling and Distribution Expenses

Selling and distribution expenses increased by 127.5% to HK$190.3 million (six months ended 30 September 2012: HK$83.7 million). The increase was mainly attributable to marketing and advertising expenses incurred by our projects in Xian, Zhengzhou and Harbin, which launched more sales activities during the period under review. In addition, an increase in staff costs incurred for the expansion of sales and marketing team also led to the increase in selling and distribution expenses during the period under review.

Administrative Expenses

Administrative expenses increased by 16.8% to HK$261.8 million (six months ended 30 September 2012: HK$224.1 million). The increase was primarily due to the increase in business activities at new projects, the expansion of the management team and the increase in the number of employees. During the period under review, the Group granted 186,300,000 share options to certain directors and employees, and HK$29.2 million in share option expenses was recorded (six months ended 30 September 2012: HK$17.3 million).

Finance Costs

Finance costs were up by 87.7% to HK$81.5 million during the period under review (six months ended 30 September 2012: HK$43.4 million). The rise was mainly attributable to an increase in new bank and other loans for general business purposes with interest expenses recorded through income statement.

Tax

Tax expenses decreased by 24.8% to HK$458.7 million (six months ended 30 September 2012: HK$609.8 million). The decrease in tax expenses was attributable to the net effect of i) an increase in current income tax and land appreciation tax as a result of the income generated from CSC Xi'an and CSC Nanning, and ii) a reversal of the provision of prior years' income tax and withholding tax during the period under review.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables increased by 33.9% to HK$860.3 million (31 March 2013: HK$642.6 million) due to the net effect of i) an increase in prepayment of business taxes of pre-sold properties at CSC Nanchang and CSC Zhengzhou, ii) an increase in balance arising from new projects, and iii) a decrease in consideration receivables of disposed subsidiaries in the previous year. As at 30 September 2013, the remaining consideration receivables from the disposal was approximately HK$329.2 million.

Trade and Other Payables

Trade and other payables increased by 47.7% to HK$12,061.8 million (31 March 2013: HK$8,165.7 million) The increase was mainly due to the increase in construction fees and retention payables as construction of new projects are underway, the increase in sales and rental deposits received and receipts in advance (including those received for Contracted Sales) arising from new projects, and the increase in other tax payables arising from the sales of properties during the period under review. As at 30 September 2013, the balance of construction fee and retention payables and deposits received and receipts in advance were HK$3,945.8 million and HK$6,570.8 million, respectively.

Liquidity and Financial Resources

The Group finances its operations primarily through internally generated funds, bank and other loans, senior notes and convertible notes.

Cash and Cash Equivalents and Restricted Cash

As at 30 September 2013, the Group had HK$9,080.3 million in cash and cash equivalents and restricted cash (31 March 2013: HK$6,777.8 million), among which non-restricted cash and cash equivalents amounted to approximately HK$7,118.0 million (31 March 2013: HK$6,264.7 million). The Group's cash and cash equivalents and restricted cash were primarily denominated in Renminbi, HK dollars and US dollars.

Borrowing and Charges on the Group's Assets

As at 30 September 2013, the Group had approximately HK$14,934.1 million in interest-bearing bank and other borrowings, senior notes and convertible notes (31 March 2013: HK$11,853.4 million). The Group had aggregated interest-bearing bank and other borrowings of approximately HK$11,086.3 million as at 30 September 2013 (31 March 2013: HK$9,000.0 million), of which HK$5,138.0 million will be repayable within one year or on demand, approximately HK$2,651.6 million will be repayable in the second year, approximately HK$2,610.0 million will be repayable in the third to fifth years and approximately HK$686.7 million will be repayable after five years. As at 30 September 2013, the Group's interest-bearing bank and other borrowings of approximately HK$7,263.4 million were secured by certain buildings, investment properties, properties under development, properties held for sale and leasehold land with a total carrying value of approximately HK$18,974.0 million.

The interest-bearing bank and other borrowings of the Group are denominated in Renminbi and bear interest at rates that range from 5.40% to 7.38% per annum. Furthermore, as at 30 September 2013, the Group had unused banking facilities of approximately HK$3,520.1 million. The Group will deploy these banking facilities as appropriate, depending on project development needs and working capital status.

In January 2011, the Company issued senior notes due in January 2016 with a nominal value of US$250 million (equivalent to approximately HK$1,950 million) at a coupon rate of 13.5% per annum for the purpose of financing existing and new projects and for general corporate use. In FY2011/12, the Company repurchased from the market a portion of the senior notes with nominal value of US$9 million. In October 2012, the Company further issued senior notes due in October 2017 with a nominal value of US$125 million (equivalent to approximately HK$975 million) at a coupon rate of 13.5% per annum for the purpose of funding its properties under development and properties planned for future development, and refinancing a portion of its existing debt and for general corporate purposes. As at 30 September 2013, the carrying value of the Group's senior notes was HK$2,861.7 million.

In April 2013, the Group issued convertible notes due in April 2018 with a principal amount of HK$975 million at a coupon rate of 6.5% per annum for the purpose of funding its properties under development and properties planned for future development, and for refinancing a portion of its existing debt, and for general corporate purposes. As at 30 September 2013, the carrying value of the Group's convertible notes was HK$986.1 million.

Gearing Ratio

The Group's gearing ratio (net debt divided by total equity) was 34.5% as at 30 September 2013 and 31.6% as at 31 March 2013.

Net Current Assets and Current Ratio

As at 30 September 2013, the Group had net current assets of HK$3,969.6 million (31 March 2013: HK$3,053.1 million) at a current ratio of 1.20 (31 March 2013: 1.20).

Contingent Liabilities

The Group has provided guarantees with respect to banking facilities granted by certain banks in connection with mortgage loans entered into by purchasers of the Group's trade centers and residential properties and bank loans entered into by lessees of the Group's residential and commercial properties. As at 30 September 2013, the guarantees amounted to HK$2,200.1 million (31 March 2013: HK$1,366.4 million). The guarantees granted to purchasers will be released when the purchasers obtain building ownership certificates, which will then be pledged to the banks. For leased residential and commercial properties, the guarantees will be released accordingly along with the repayment of loan principals by the lessees.

Commitments

As at 30 September 2013, the Group had future capital expenditure contracted but not yet provided in the amount of HK$6,306.4 million (31 March 2013: HK$3,636.4 million).

Foreign Exchange Risk

The Group conducts its business mainly in Renminbi; this includes our income and expenses, assets and liabilities. During the period under review, the exchange rate of Renminbi to HK dollars and US dollars increased steadily. The Group's management believes that the fluctuation of the Renminbi will not have a significant impact on the Group's operations. The Group has not issued any financial instruments for hedging purposes.

Acquisition and Disposal of Subsidiaries and Associated Companies

The Group made no material acquisitions and disposals of subsidiaries and associated companies during the period under review.

Land for Projects and Restriction on Sales

The Group signs project agreements with local governments prior to the development of all projects in order to outline the blueprints of relevant projects in the area. These agreements generally set out the intended size and use of land. However, the acquisition of land, actual land area and other land restrictions are subject to the relevant regulations and local government procedures involving public tender, auction and listing. The actual area of the land acquired and other relevant conditions are subject to these procedures.

The progress of the land acquisition and project development depends on the progress of the Group's planning and construction of the relevant projects, as well as the procedures and time required for each of these procedural formalities as determined by the different local government departments, including the approval for land use quotas, the requisition and planning of land, changes in land use, and the evaluation and valuation process prior to the procedures of public tender, auction and listing. As the time taken and requirements for such procedures vary in different places, as do the formalities and time that the Group requires to apply for certificates for different projects, the Group adjusts the development of each project accordingly. In view of its substantial land bank and greater flexibility in project planning, the Group believes such circumstances have little impact on its development as a whole.

Pursuant to certain land grant contracts signed by CSC Shenzhen, the saleable GFA of CSC Shenzhen properties built on these parcels of land is limited to 30% of the total buildable GFA. Pursuant to certain land grant contracts signed by CSC Nanchang and CSC Nanning in 2010, the saleable GFA of trade centers and storage facilities built on these parcels of land are limited to 60% of the total buildable GFA. This restriction does not apply to the properties built for residential, commercial and other uses. Pursuant to certain land grant contracts signed by CSC Hefei in May and June 2013, the saleable GFA of trade centers built on these parcels of land are limited to 50% of the total buildable GFA. This restriction does not apply to the properties built for residential, commercial and other uses. Except for the conditions mentioned above, there is no restriction on sales of the land acquired by the Group. The Group holds and builds the properties with restrictions for leasing and self-use.

Human Resources

As at 30 September 2013, the Group had a workforce of approximately 5,020 people, including approximately 4,860 people directly employed by the Group and approximately 160 people employed by our joint venture. The number of the Group's staff increased by 34.6% from 3,730 as at 31 March 2013. The Group aims to recruit, retain and develop competent individuals who are committed to the Group's long-term success and growth. Remunerations and other benefits of employees are reviewed annually in response to both market conditions and trends, and are based on qualifications, experience, responsibilities and performance. In addition to basic salaries and other staff benefits, discretionary bonuses and share options may be awarded to employees who display outstanding performance and contributions to the Group. During the period under review, the Company granted 186,300,000 share options to certain directors and employees.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the Period, the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except for the following deviation:

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors, as equal Board members, should attend general meetings of the Company. During the Period, two non-executive directors were unable to attend the last annual general meeting of the Company held on 21 August 2013 as they had other prior business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the guidelines for the directors' dealing in the securities of the Company. Upon specific enquiries of all the directors, each of them confirmed that they have complied with the required standards set out in the Model Code for the Period in relation to the securities dealings, if any.

AUDIT COMMITTEE

The Audit Committee is responsible for the review and supervision of the Group's financial reporting process, internal controls and review of the Company's financial statements. Their written terms of reference are in line with the provisions under the Corporate Governance Code and the roles and responsibilities delegated to the Audit Committee by the Board.

The Audit Committee consists of Mr. Li Wai Keung as chairman, Mr. Leung Kwan Yuen Andrew, Mr. Hui Chiu Chung Stephen and Mr. Yung Wing Ki Samuel. All the Audit Committee members are independent non-executive directors.

REVIEW OF INTERIM RESULTS

The unaudited interim results of the Company and its subsidiaries for the six months ended 30 September 2013 have been reviewed by the Audit Committee and Ernst & Young, the Company's independent auditors, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

For and on behalf of the Board
China South City Holdings Limited
Cheng Chung Hing
Co-Chairman & Executive Director

Hong Kong, 25 November 2013

As at the date of this announcement, the executive directors of the Company are Mr. Cheng Chung Hing, Mr. Leung Moon Lam and Professor Xu Yang; the non-executive directors of the Company are Dr. Ma Kai Cheung, SBS, BBS, Mr. Sun Kai Lit Cliff, BBS, JP, Dr. Ma Wai Mo, and Mr. Cheng Tai Po; and the independent non-executive directors of the Company are Mr. Leung Kwan Yuen Andrew, GBS, SBS, JP, Mr. Li Wai Keung, Mr. Hui Chiu Chung Stephen JP and Mr. Yung Wing Ki Samuel SBS, MH, JP.