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 2016

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2016	2015	**Approximate**
	HK$'000	*HK$'000*	**Change %**
	(Unaudited)	(Unaudited)	
Contracted Sales	**4,315,612**	3,796,281	**13.7**
Revenue	**2,892,799**	2,152,854	**34.4**
Among which, Recurring income	**736,486**	603,215	**22.1**
Gross profit margin	**43%**	51%	
Profit attributable to owners of the parent	**856,883**	755,790	**13.4**
Core net profit attributable to owners of the parent*	**258,587**	197,722	**30.8**
Earnings per share – Basic	**HK10.70 cents**	HK9.45 cents	**13.2**

* Represents the net profit attributable to owners of the parent excluding fair value gains on investment properties and related tax effects and profit or loss on purchase and redemption of senior notes.

INTERIM RESULTS

The board of directors (the "**Board**") of China South City Holdings Limited (the "**Company**"), together with its subsidiaries ("**China South City**" or the "**Group**") is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2016 ("**1H FY2016/17**" or the "**Period**") together with the comparative figures for the previous financial period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2016

		For the six months ended 30 September	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**2,892,799**	2,152,854
Cost of sales		**(1,650,249)**	(1,048,651)
Gross profit		**1,242,550**	1,104,203
Other income and gains/(losses)	*4*	**684,177**	504,143
Fair value gains on investment properties	*4*	**963,134**	797,322
Selling and distribution expenses		**(395,537)**	(417,701)
Administrative expenses		**(563,131)**	(604,543)
Other expenses		**(85,095)**	(23,921)
Finance costs	*5*	**(109,855)**	(91,642)
PROFIT BEFORE TAX	*6*	**1,736,243**	1,267,861
Income tax expenses	*7*	**(882,144)**	(518,929)
PROFIT FOR THE PERIOD		**854,099**	748,932
Attributable to:			
Owners of the parent		**856,883**	755,790
Non-controlling interests		**(2,784)**	(6,858)
		854,099	748,932
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic			
– For profit for the period		**HK10.70 cents**	HK9.45 cents
Diluted			
– For profit for the period		**HK10.70 cents**	HK9.44 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**854,099**	748,932
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(971,392)**	(658,511)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(971,392)**	(658,511)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(117,293)**	90,421
Attributable to:		
Owners of the parent	**(107,311)**	102,882
Non-controlling interests	**(9,982)**	(12,461)
	(117,293)	90,421

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

	Notes	**30 September 2016 HK$'000 (Unaudited)**	31 March 2016 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,434,073**	1,507,155
Investment properties		**36,576,147**	34,814,188
Properties under development		**4,574,382**	4,252,854
Prepaid land lease payments		**953,918**	996,351
Goodwill		**34,128**	34,128
Investments in associates		**66,582**	60,310
Available-for-sale investments		**175,512**	175,512
Other long-term receivables		**5,986**	4,179
Deposits paid for purchase of land use rights		**142,054**	403,144
Deferred tax assets		**2,148,248**	2,145,347
Total non-current assets		**46,111,030**	44,393,168
CURRENT ASSETS			
Properties held for finance lease		**495,817**	168,524
Properties held for sale		**25,724,144**	25,179,046
Trade receivables	10	**1,086,729**	1,149,273
Prepayments, deposits and other receivables		**916,842**	781,260
Held-for-trading investments at fair value through profit or loss		**31,200**	27,365
Cash and cash equivalents and restricted cash		**8,259,021**	11,686,695
Total current assets		**36,513,753**	38,992,163
CURRENT LIABILITIES			
Trade and other payables	11	**15,780,402**	13,269,724
Interest-bearing bank and other borrowings		**5,873,819**	7,656,878
Short-term notes		**1,394,280**	2,525,460
Tax payables		**4,446,743**	4,569,111
Total current liabilities		**27,495,244**	28,021,173
NET CURRENT ASSETS		**9,018,509**	10,970,990
TOTAL ASSETS LESS CURRENT LIABILITIES		**55,129,539**	55,364,158

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)
As at 30 September 2016

	30 September 2016 *HK$'000* **(Unaudited)**	31 March 2016 *HK$'000* (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**7,605,897**	8,965,863
Senior notes	**4,454,209**	4,113,363
Medium-term notes	**4,687,421**	5,026,696
Corporate bonds	**1,768,348**	1,891,219
Domestic company bonds	**5,275,813**	3,629,086
Deferred tax liabilities	**5,459,682**	5,369,466
Total non-current liabilities	**29,251,370**	28,995,693
Net assets	**25,878,169**	26,368,465
EQUITY		
Equity attributable to owners of the parent		
Share capital	**7,054,362**	7,043,784
Other reserves	**18,641,922**	19,134,733
	25,696,284	26,178,517
Non-controlling interests	**181,885**	189,948
Total equity	**25,878,169**	26,368,465

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

1. BASIS OF PREPARATION AND OTHER INFORMATION

Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2016 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 ("**HKICPA**").

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 2016.

Other Information

The financial information relating to the year ended 31 March 2016 that is included in the interim condensed consolidated financial statements for the six months ended 30 September 2016 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 March 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 2016.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. SEGMENT INFORMATION

	Property development *HK$'000* (Unaudited)	Property investment *HK$'000* (Unaudited)	Property management *HK$'000* (Unaudited)	E-commerce *HK$'000* (Unaudited)	Others *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Six months ended 30 September 2016						
Segment revenue:						
Sales to external customers	**2,156,313**	**353,457**	**153,168**	**63,438**	**166,423**	**2,892,799**
Intersegment sales	**–**	**20,728**	**19,051**	**47,517**	**342**	**87,638**
	2,156,313	**374,185**	**172,219**	**110,955**	**166,765**	**2,980,437**
Elimination of intersegment sales						**(87,638)**
Revenue						**2,892,799**
Segment results before increase in fair value of investment properties	**1,019,354**	**253,774**	**15,797**	**63,438**	**91,447**	**1,443,810**
Increase in fair value of investment properties	**–**	**963,134**	**–**	**–**	**–**	**963,134**
Segment results after increase in fair value of investment properties	**1,019,354**	**1,216,908**	**15,797**	**63,438**	**91,447**	**2,406,944**
Unallocated cost of sales						**(201,260)**
Interest income						**41,800**
Gain on held-for-trading investments at fair value through profit or loss, net						**3,835**
Unallocated income						**638,542**
Unallocated expenses						**(1,043,763)**
Finance costs						**(109,855)**
Profit before tax						**1,736,243**
As at 30 September 2016						
Segment assets	**34,482,008**	**36,858,276**	**88,671**	**98,131**	**1,156,093**	**72,683,179**
Reconciliation:						
Investments in associates						**66,582**
Unallocated assets						**9,875,022**
Total assets						**82,624,783**
Segment liabilities	**8,492,989**	**4,651,548**	**62,403**	**364,169**	**302,512**	**13,873,621**
Reconciliation:						
Unallocated liabilities						**42,872,993**
Total liabilities						**56,746,614**

	Property development *HK$'000* (Unaudited)	Property investment *HK$'000* (Unaudited)	Property management *HK$'000* (Unaudited)	E-commerce *HK$'000* (Unaudited)	Others *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Six months ended 30 September 2015						
Segment revenue:						
Sales to external customers	1,549,639	333,951	87,980	50,797	130,487	2,152,854
Intersegment sales	–	14,726	–	57,810	6,848	79,384
	1,549,639	348,677	87,980	108,607	137,335	2,232,238
Elimination of intersegment sales						(79,384)
Revenue						2,152,854
Segment results before increase in fair value of investment properties	914,115	238,923	(27,203)	50,790	88,468	1,265,093
Increase in fair value of investment properties	–	797,322	–	–	–	797,322
Segment results after increase in fair value of investment properties	914,115	1,036,245	(27,203)	50,790	88,468	2,062,415
Unallocated cost of sales						(160,890)
Interest income						36,571
Loss on held-for-trading investments at fair value through profit or loss, net						(4,810)
Unallocated income						472,382
Unallocated expenses						(1,046,165)
Finance costs						(91,642)
Profit before tax						1,267,861
As at 31 March 2016 (Audited)						
Segment assets	36,370,396	32,286,528	45,800	100,455	1,338,433	70,141,162
Reconciliation:						
Investments in associates						60,310
Unallocated assets						13,183,409
Total assets						83,385,331
Segment liabilities	5,610,040	5,164,724	56,657	544,419	288,382	11,664,222
Reconciliation:						
Unallocated liabilities						45,352,644
Total liabilities						57,016,866

4. REVENUE, OTHER INCOME AND GAINS/(LOSSES), FAIR VALUE GAINS ON INVESTMENT PROPERTIES

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of properties	**2,097,193**	1,430,408
Finance lease income	**59,120**	119,231
Rental income	**353,457**	333,951
Property management service income	**153,168**	87,980
E-commerce income	**63,438**	50,797
Other revenue*	**166,423**	130,487
	2,892,799	2,152,854
Other income		
Interest income	**41,800**	36,571
Government grants**	**740,909**	542,719
Others	**16,262**	14,796
	798,971	594,086
Gains/(losses)		
Gains/(losses) on held-for-trading investments at fair value through profit or loss, net	**3,835**	(4,810)
Loss on redemption of the 2012 Notes	**(87,049)**	–
Gains on purchase of the 2014 Notes	**597**	–
Exchange losses	**(32,177)**	(85,133)
	(114,794)	(89,943)
	684,177	504,143
Fair value gains on investment properties	**963,134**	797,322

* Other revenue includes amounts of HK$83,243,000 (six months ended 30 September 2015: HK$59,606,000) related to income from outlet operations and HK$74,894,000 (six months ended 30 September 2015: HK$65,824,000) related to income from logistics and warehousing services.

** Various government grants have been received from the relevant government authorities to foster and support the development of the relevant projects of the Group in Mainland China. There are no unfulfilled conditions or contingencies relating to these subsidies.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings (including senior notes, medium-term notes, corporate bonds, domestic company bonds and short-term notes)	**1,185,115**	952,058
Less: Interest capitalised	**(1,075,260)**	(860,416)
Total	**109,855**	91,642

6. PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of properties sold	**1,121,504**	584,242
Cost of properties held for finance lease	**15,455**	51,282
Depreciation	**62,673**	97,948
Less: Depreciation capitalised in respect of properties under development	**(841)**	(602)
	61,832	97,346
Amortisation of prepaid land lease payments	**9,451**	11,562
Loss on disposal of subsidiaries and a joint venture*	**–**	5,480
Loss on redemption of the 2012 Notes	**87,049**	–
Gain on purchase of the 2014 Notes	**(597)**	–
Provision for impairment of trade receivables*	**46,240**	8,490
Equity-settled share option expense	**18,283**	11,114

* Included in "Other expenses" in the condensed consolidated statement of profit or loss.

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 2015: Nil).

Taxes on profits assessable in Mainland China are calculated at the rates of tax prevailing in the provinces in which the Group operates.

Under the relevant income tax law, the PRC subsidiaries are subject to corporate income tax ("**CIT**") at the statutory rate of 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 sale of properties less deductible expenditures including land cost, borrowing costs and all property development expenditures.

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current:		
Mainland China corporate income tax	**163,068**	209,595
LAT in Mainland China	**447,469**	276,302
Deferred:		
Mainland China corporate income tax	**372,832**	98,445
LAT in Mainland China	**(111,867)**	(69,075)
Withholding tax on dividend	**10,642**	3,662
Total tax charged for the period	**882,144**	518,929

8. DIVIDENDS

At a meeting of the Board held on 25 November 2016, the directors resolved not to pay an interim dividend to shareholders (six months ended 30 September 2015: Nil).

9. 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	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**856,883**	755,790

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**8,006,092,491**	8,000,895,283
Effect of dilution – weighted average number of ordinary shares: Share options	**2,794,804**	9,495,719
	8,008,887,295	8,010,391,002

10. TRADE RECEIVABLES

Trade receivables represent sales income, rental, and service income receivables from customers which are payable on issuance 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 based on the payment due date as at the end of the reporting period, and net of provision, is as follows:

	30 September 2016 *HK$'000* **(Unaudited)**	31 March 2016 *HK$'000* (Audited)
Within 1 month	**477,014**	550,292
1 to 2 months	**72,132**	108,926
2 to 3 months	**27,663**	39,340
Over 3 months	**509,920**	450,715
Total	**1,086,729**	1,149,273

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 2016** *HK$'000* **(Unaudited)**	31 March 2016 *HK$'000* (Audited)
Other payables and accruals		**1,828,857**	2,514,025
Notes payables		**136,870**	203,708
Deposits received and receipts in advance		**6,550,562**	4,184,827
Construction fee and retention payables	*(i)*	**7,264,113**	6,367,164
Total		**15,780,402**	13,269,724

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

	30 September 2016 *HK$'000* **(Unaudited)**	31 March 2016 *HK$'000* (Audited)
Within 1 year	**7,254,030**	6,152,501
Over 1 year	**10,083**	214,663
Total	**7,264,113**	6,367,164

The construction fee and retention payables are non-interest-bearing and repayable within the normal operating 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 consolidated interim results of the Group for the six months ended 30 September 2016.

RESULTS AND DIVIDEND

During the Period, the Central Government continued to accelerate its supply-side structural reforms to promote long term and sustainable economic growth. On the back of credit easing, increased fiscal spending, a buoyant property market and other government stimulus measures, major economic indicators pointed to a more stable economic growth in China. This was accompanied by a narrowing decline in imports and exports, as well as a rebound in the manufacturing Purchasing Managers' Index ("**PMI**") of 51.2 in October 2016. The manufacturing PMI has remained above the 50-point mark for three consecutive months and reached the highest level since July 2014, outperforming market expectations. Furthermore, China maintained 6.7% gross domestic product ("**GDP**") growth in the third quarter of 2016, remaining at the same level for three consecutive quarters. Nevertheless, the complex and uncertain macroeconomic environment still posed certain challenges to the Group's operating performance.

In response to the economic shift, the Group proactively adjusted its strategy to broaden its revenue stream during the Period. The Group successfully expedited residential ancillary sales, diversified the tenant mix by attracting E-commerce and technology companies as tenants, and strengthened its comprehensive ancillary facilities and services. As a result, the Group's recurring income grew steadily during the Period, and its Contracted Sales also rose 13.7% year-on-year to reach to HK$4,315.6 million (1H FY2015/16: HK$3,796.3 million), asserting a rebound marked by five consecutive quarters of growth.

The Group recorded revenue growth of 34.4% year-on-year to reach HK$2,892.8 million (1H FY2015/16: HK$2,152.9 million) for the Period. Recurring revenue grew 22.1% year-on-year to reach HK$736.5 million (1H FY2015/16: HK$603.2 million). Net profit attributable to owners of the parent stood at HK$856.9 million (1H FY2015/16: HK$755.8 million). Core net profit attributable to owners of the parent (being net profit attributable to owners of the parent excluding fair value gains on investment properties and related tax effects and profit or loss on purchase and redemption of senior notes) was HK$258.6 million (1H FY2015/16: HK$197.7 million). Basic earnings per share stood at HK10.70 cents (1H FY2015/16: HK9.45 cents).

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2016 (1H FY2015/16: Nil).

REVIEW OF THE MARKET AND OPERATIONS

Solid performance was attributable to a diversified and flexible business model

China South City commands a unique business model and an unparalleled network of projects, strategically located in major provincial capitals and municipalities in China. With its project developments spanning a long economic cycle and operations straddling numerous business sectors, the Group has a business model which is both diverse and flexible enough to ride through cyclical fluctuations during the economic transition ensures the sustainability of its business. In 1H FY2016/17, the Group continued to see encouraging growth in recurring income and residential ancillary sales despite the sales of trade center remained weak amid the overall macroeconomic environment and the slower than expected of local wholesale market relocation.

During the Period, the Central Government continued to focus on reducing housing inventory. The Group saw an increase in demand for its residential ancillary. Leveraging its flexible business model, the Group launched additional residential ancillary to meet rising market demand during the Period.

Steady growth in recurring income provides sustainable development

Our guiding principle for achieving sustainable and long-term development is based on steady growth in income generated from recurring business operations, such as rental, property management, E-commerce, logistics and warehousing services and outlet operations. The Group believe that the successful replication of our unique business model across geographies highlights the merit of the Group's operating philosophy. During the Period, income from rental, property management, E-commerce, logistics and warehousing services and outlet operations reached HK$353.5 million, HK$153.2 million, HK$63.4 million, HK$74.9 million and HK$83.2 million respectively (1H FY2015/16: HK$334.0 million, HK$88.0 million, HK$50.8 million, HK$65.8 million and HK$59.6 million respectively).

Logistics and warehousing services formed an integral part of the Group's strategic resources. The growing demand for warehousing services remained the driving force for the Group's warehousing business and its high occupancy rate. Backed by our well-developed regional logistics hub, the Group successfully expanded its tenant portfolio during the Period by attracting new clients such as technology companies and E-commerce platforms. The Group also plans to extend its services through various means, such as providing customized warehouses to leading third party logistics companies.

As "Internet Plus" being a core strategy of the Group's fourth-generation integrated logistics and trading platform, the Group further strengthened the development of its E-commerce services by leveraging its B2B platform – CSC86.com and strategic partnership with Tencent Holdings Limited ("**Tencent**"). the Group's E-commerce services such as online payment and trial online membership program were widely appreciated by our customers, serving as key tools for raising small and medium-sized enterprises ("**SMEs**") competitiveness and facilitating buyer and seller transactions.

The outlet mall at China South City Shenzhen ("**CSC Shenzhen**") contributed a steadily growing stream of recurring income for the Group. Following the transformation of CSC Shenzhen into an iconic regional outlet center, the district enjoyed steady visitor traffic which helped to boost the Group's brand recognition. Riding on its successful operations, the Group replicated the Shenzhen outlet model across other projects. During the Period, the outlet malls in Xi'an, Nanchang, Nanning and Harbin also performed in line with our expectations.

Diversification of financing channels in onshore and offshore capital markets

During the Period, the Group undertook a number of onshore and offshore financing activities at a relatively low cost that lead to further reduction of overall financing costs and improvement of its financial structure. As a leading developer and operator of large-scale integrated logistics and trade centers in China by planned gross floor area ("**GFA**"), the Company taps into the domestic capital market to take advantage of the easing funding environment to diversify its funding channels.

FUTURE PROSPECTS

Looking ahead to the second half of the fiscal year, the Group maintains a cautiously optimistic business outlook for its operating environment in the short to medium term, as China's economy continues to face considerable pressure amid structural reforms and transformation. The Group will continue to implement its long-term strategy and is well-positioned to capture the opportunities arising from China's economic development. After 1H FY2016/17, I have signed a letter of intent (the "**Letter of Intent**") with a Shenzhen-listed property developer, Shenzhen Centralcon Investment Holding Co., Ltd. ("**Centralcon**"), in relation to the proposed share transfer of an approximately 23.20% equity stake in the Company. I believe the introduction of Centralcon as a substantial shareholder will further strengthen the Company's shareholder base. The transaction is expected to bring synergy and increase the competitiveness of both companies, as well as combine their resources as listed companies in both PRC and Hong Kong. These benefits will stem from Centralcon's extensive experience in residential property development, high-end hotel and commercial property management, as well as China South City's expertise in the development and operation of integrated large-scale trade and logistics centers. After the proposed transaction, my management position and the core management of the Company will basically remain unchanged and we all have full confidence in the future of the Company. I am also actively looking into investment opportunities in Centralcon and becoming an important shareholder of Centralcon.

The Central Government's "One Belt, One Road" initiative and "Internet Plus" strategy will continue to support the Group's prospects for long-term development. In addition, the Group anticipates a diversified revenue stream with the introduction of new business initiatives and opportunities such as further tenant mix diversification, accelerated development of its warehousing business and the upcoming government initiatives in the proximity of several existing projects. These will serve to bolster the Group's steady growth trajectory. In adapting to the shifting business landscape, the Group will continue to develop its "Online + Physical + Logistics" business eco-system to provide better services and support to its tenants, in line with the Group's fourth-generation integrated logistics and trading development.

The management expects the Group to achieve an annual sales target of HK$7.5-8.5 billion for the fiscal year ended 31 March 2017 ("**FY2016/17**"). As at 30 September 2016, the Group has achieved HK$4.3 billion of Contracted Sales.

Finally, on behalf of the Board, I would like to extend my heartfelt gratitude to our valued shareholders, customers and business partners, for their trust and continued support of the Group. I would also like to express my appreciation to the management and staff for their professionalism and wholehearted commitment.

Cheng Chung Hing
Co-Chairman & Executive Director

Hong Kong, 25 November 2016

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period, the Central Government continued to pursue supply-side structural reforms by boosting infrastructure investment, stimulating domestic demand, and fostered internal growth drivers. As a result, China's economy has shown new signs of growth momentum. In recent months, key market indicators such as GDP growth, manufacturing PMI and foreign trade volume have reflected China's economic stability. In addition, the property market in China continued to thrive during the Period, seeing strong demand and stellar growth in housing prices. These factors have contributed to a favorable market sentiment, supporting the demand for the Group's residential ancillary and comprehensive value-added services.

Anchored on its unique "Online + Physical + Logistics" business model, the Group succeeded in maintaining the growth momentum of its recurring businesses, delivering steady revenue stream growth. With the increasing maturity of the Group's existing projects, it's residential ancillary was well-received by the market and contributed to the Group's contracted sales growth. This strong performance was made possible by excellent property locations in major provincial capitals and municipalities in China, and aimed by surrounding infrastructural developments such as metro systems, highways and railways.

However, in light of a complex and uncertain macroeconomic environment, intensifying competition and the slower than expected in local wholesale market relocation, SMEs remained hesitant towards investing in trade center units. As a result, contracted sales for the Group's wholesale market units were adversely affected.

During the Period, the Group recorded total revenue of HK$2,892.8 million (1H FY2015/16: HK$2,152.9 million) representing a year-on-year growth of 34.4%. Its recurring income increased by 22.1% year-on-year from HK$603.2 million in 1H FY2015/16 to HK$736.5 million, accounting for 25.5% of the total revenue (1H FY2015/16: 28.0%). Contracted sales grew by 13.7% to HK$4,315.6 million (1H FY2015/16: HK$3,796.3 million). Net profit attributable to owners of the parent reached HK$856.9 million (1H FY2015/16: HK$755.8 million). Basic earnings per share amounted to HK10.70 cents (1H FY2015/16: HK9.45 cents).

Harnessing China South City's Business Growth Potential

Located in China's major provincial capitals and municipalities, the Group's projects are set to benefit from the Central Government's increase in infrastructure spending. Following the increasing maturity of our projects, the Group saw a growing demand for its residential ancillary facilities. This demand was further assisted by increased provincial development during the Period, as shown in strong residential ancillary sales at China South City Nanchang ("**CSC Nanchang**") and China South City Hefei ("**CSC Hefei**") during the Period.

Accelerated Ancillary Facilities Developments

The completion of multiple government-led infrastructure projects has led to greater demand for ancillary facilities in and around of the Group's project sites. With the recent completion of the subway line passing through China South City Xi'an ("**CSC Xi'an**") and China South City Zhengzhou ("**CSC Zhengzhou**") as well as the subway line passing through Shenzhen subway line is underway, the Group has identified ancillary facilities as a development priority. In addition, key national events such as the 14th National Games of the People's Republic of China in Xi'an 2021 will pull further visitors to its sites. In response, the Group has ramped up the development of ancillary facilities in its major projects, with particular focus on residential ancillary and outlet operations.

Maintained the Strong Growth Momentum of CSC Zhengzhou

Located at the heart of a major logistics hub in Central China, over the past two years CSC Zhengzhou has stood out as the Group's fastest-growing project in terms of revenue contribution and rate of development. Given the progress of local government's relocation and new infrastructure development, the Group saw immense development potential in CSC Zhengzhou. For example, the extension of subway line 2 in Zhengzhou which connects the downtown area to the Zhengzhou Airport Economic Zone ("**AEZ**"), passes through CSC Zhengzhou with three stops, has already commenced trial operation recently and will put into operation in the near future. To achieve its full growth potential, the Group has strategically focused its investment resources on this project. Between July and November this year, the Group newly acquired land with the purpose of commercial, residential and warehouse to support the long-term development of CSC Zhengzhou.

Increasingly diversified tenant mix across projects

CSC Shenzhen is the Group's first development project. After over a decade of development, CSC Shenzhen further diversified its business operations and enhanced the ancillary facilities and services of its fourth-generation integrated logistics and trading platform. Due to its competitive strengths in logistics facilities and a diverse customer base, CSC Shenzhen has become a hub for leading cross-border E-commerce enterprises. Building on this successful model, the Group further diversified its tenant mix by introducing E-commerce companies to other projects. Tapping into our E-commerce tenants' high demand for warehousing facilities and logistics services, tenant diversification not only broadens the Group's revenue stream, but also further develops its business eco-system for the extensive integration of O2O trading.

Steady Revenue Streams from Recurring Business

As a leading operator of large-scale integrated logistics and trade centers in China, the Group has successfully built up a strong project portfolio spanning eight cities over the country. The Group leverages its physical assets as a platform to offer comprehensive value-added services to its occupants, thereby generating multiple streams of recurring income. With more projects commencing operation and a burgeoning demand for its ancillary services, the Group saw a sustainable growth in recurring income.

Logistics and Warehousing Services

China's logistics sector has flourished on the back of the E-commerce boom and has drawn increasing investor interest. Riding on the growing maturity of its projects, coupled with the exponential growth of E-commerce in China, the Group saw a strong demand for its warehousing facilities and logistics services from both tenants and third-party logistics providers, the growing demand has acted as a key driving force for the Group's warehousing business. During the Period, this segment recorded revenue of HK$74.9 million (1H FY2015/16: HK$65.8 million), up by 13.8% year-on-year.

Capitalizing on the E-commerce boom, the Group intends to grow its tenant portfolio by attracting new clients, such as leading third-party logistics companies and E-commerce companies. The Group also considers optimizing its services through various means, including a plan to provide customized warehouses to meet customers' needs. Through utilizing China South City's extensive network, the Group saw a gradual increase in demand for its Logistics Information Exchange Platform ("**LIEP**") services from SMEs and Heavy Goods Vehicles ("**HGVs**") drivers, which help cargo owners to manage delivery cost more effectively and utilize resources more efficiently.

E-commerce Development

Today, China's internet penetration rate exceeds 50%. The "Internet Plus" strategy is pivotal to upgrading the nation's industries. It is also set to create new economic drivers and form a new economic trend in China. To take full advantage of this national strategy, the Group further strengthened its fourth-generation integrated logistics and trading platform during the Period, which was instrumental in helping SMEs raise their operational efficiency and competitiveness. Backed by its strategic partnership with Tencent, the Group has harnessed Tencent's technical expertise and wealth of resources to step up its support of SMEs' E-commerce development.

During the Period, the Group continued to upgrade its integrated "O2O" platform. It strengthened its E-commerce platform — CSC86.com to deliver a more superior and efficient support service to SMEs in areas such as online trading and payment.

Outlet Operations

Due to the intensifying competition from online retail, the brick-and-mortar retail business faced challenges with weak same-store sales and excessive inventory. Nevertheless, the outlet business has become more popular in the retail sector and grown rapidly in recent years, providing shoppers with a quality shopping experience, after sales service and branded goods at value-for-money prices. The Group gains full exposure to these market opportunities through its wholly-owned subsidiary — Shenzhen Huasheng Commercial Development Company Limited. The outlets business continues to generate significant cash flow and further supports our projects by driving steady visitor flow.

During the Period, the outlets operations recorded a gross sales turnover of approximately RMB415 million and generated a recurring income of HK$83.2 million. Riding on its successful operations, the Group replicated the Shenzhen outlet model across other projects. Trial runs of its outlet malls in China South City Nanning ("**CSC Nanning**"), CSC Nanchang, CSC Xi'an and China South City Harbin ("**CSC Harbin**") projects are showing positive results. The outlet mall in CSC Xi'an was the second-largest contributor among the Group's outlet malls in terms of sales turnover and number of brands. The subway line 3 of Xi'an metro, which commenced trial operation on 8 November 2016, passes through CSC Xi'an and is expected to bring more business opportunities and visitor traffic to the region. The outlet malls in CSC Zhengzhou and CSC Hefei are slated to begin operations in the near future, which will generate more recurring income and operating cash flow for the Group.

The Group recognized the inherent opportunity in China's strong demand for overseas products ranging from daily essentials to high-end luxury products. It has targeted this opportunity by expanding its outlets business based on the "Direct Overseas Sourcing" model. The Group have started a new business unit called "Atlantis" which specializes in sourcing luxury fashion products from overseas, to meet the increasing demand for affordable foreign luxury goods in China. Atlantis is expected to commence operations in Shenzhen, Nanchang and Harbin within the coming year, and is set to further enhance the ancillary facilities of the projects, as well as to attract additional traffic.

Property Management

In order to further increase its competitive edge in property management of wholesale market, the Group increased its efforts to raise property management and service standards. With the completion of several new projects, the Group has fortified its industry standing by utilizing its fourth-generation integrated logistics and trade centers to provide quality service and grow economies of scale. The Group's efforts paid off, as shown by the continued growth in recurring revenue and steady cash inflows provide by this segment. In 1H FY2016/17, recurring income from property management grew by 74.1% year-on-year to HK$153.2 million.

HOBA Furnishing

Quoted on the National Equities Exchange and Quotations System (also known as the "**New Third Board**") in the PRC, Shenzhen HOBA Home Furnishing Chain Store Co., Ltd. ("**HOBA Furnishing**") is principally engaged in the operation of furnishing centers in the PRC for the supply of middle-to-high-end quality home furnishing products and accessories. As at 30 September 2016, HOBA Furnishing operated ten stores (including two new megastores in CSC Shenzhen and CSC Nanning respectively) in China, contributing stable recurring income to the Group. During the Period, trial operations of the two new stores in CSC Shenzhen and CSC Nanning proceeded smoothly.

Trade Fairs

The Group organized a number of trade exhibitions and conventions across its projects, leveraging its large-scale trading platforms in major provincial capitals and municipalities in China together with its long-term relationships and extensive experience in co-organizing trade fairs with local governments. The events were well-received by many international and local exhibitors, not only boosting visitor and business traffic to these projects, but also creating more business opportunities for its trade centers. This further enhanced the brand awareness and recognition of China South City.

Selective Events at a Glance

Ethnic and Cultural Festival cum Trade Fairs

The Ethnic and Cultural Festival cum Trade Fair was held in CSC Nanning in April 2016. The 11-day event attracted a large number of participants and visitor traffic to the project. Meanwhile, CSC Nanning held the 9th (Guangxi) Nanning Spring Tea Festival which significantly boosted the sales of tenants selling tea and teaware, and created business opportunities for other tenants in CSC Nanning.

ITFCEWC cum the Silk Road International Expo

The 20th Investment & Trade Forum for Cooperation between East & West China ("**ITFCEWC**") cum 2016 Silk Road International Expo were held in Xi'an in May 2016. During the event, the "Silk Road Commodity Trade Fair" was undertaken by CSC Xi'an to exhibit numerous commodities produced by the countries along the Silk Road. Leveraging its convention and exhibition facilities and easily accessible logistic network, CSC Xi'an not only integrate the resources of countries along the Silk Road but also promote full cooperation, driving trade and logistics development in Xi'an.

Harbin International Economic and Trade Fair

The 27th Harbin International Economic and Trade Fair China South City sub-venue cum the 9th Heilongjiang, Hong Kong, Macao, Taiwan and Russia (Green organic food, Korean goods) Trade Fair kicked off in CSC Harbin in June 2016. It was hosted by Heilongjiang Province People's Government and co-organized by the Council for Promotion of Trade in Heilongjiang Province, the Council for Promotion of Trade in Harbin and CSC Harbin. Harbin International Economic and Trade Fair acts as the window of China to the world, which laying the platform for the economic and trade cooperation with Northeast Asia and the world. It is regarded as a leading exhibition for Sino-Russia on economic, trade and technological cooperation. The 5-day event not only brought visitors and business opportunities to CSC Harbin, but also highlighted the growing role of CSC Harbin as a powerful platform to promote international economic and trade cooperation in Northeast Asia, thereby boosting the brand power of China South City in the region.

China-ASEAN Expo and Light Industrial Exhibition

The 13th China-ASEAN Expo and Light Industrial Exhibition, co-hosted by China and the Economic and Trade Departments of ten ASEAN counterparts and the China-ASEAN Expo Secretariat, organized by the Government of the Guangxi Zhuang Autonomous Region, took place in CSC Nanning in September 2016 for the 7th consecutive years. This has firmly established CSC Nanning as a hub for light industrial products trading between China and ASEAN countries, strengthening the trade links and cultural exchanges between both sides, and increased the Group's brand recognition in the region and among ASEAN countries.

Financial Management

During the Period, the diversity of our funding channels in both onshore and offshore markets allow the Group to optimize its funding costs and maturity profile to support its ongoing business development. As at 30 September 2016, the Group recorded a weighted average financing cost of 6.2% (31 March 2016: 6.3%).

In May 2016, China South International Industrial Material City (Shenzhen) Company Limited ("**China South International**"), a wholly-owned subsidiary of the Group, completed the issuance of its second tranche of domestic company bonds of 2016 in the PRC for a total principal amount of RMB1.4 billion, with a term of three years, at a coupon rate of 6.85% per annum. In September 2016, China South International completed the issuance of its first tranche of short-term notes of 2016 in the national inter-bank market of the PRC for a total principal amount of RMB1.2 billion with a maturity period of 365 days, at an interest rate of 4.9% per annum. The Group also completed the issuance of an aggregate total of US$350 million senior notes due 2021 with an interest of 6.75% per annum in September and October 2016. The successful financings through both notes issuance and bank loans reflected the supports from banks and investors both onshore and offshore.

大公國際資信評估有限公司 (Dagong Global Credit Rating Co., Ltd) awarded an A-1 rating and AA rating to the first tranche of the short-term notes of 2016 and China South International respectively. 東方金誠國際信用評估有限公司 (Golden Credit Rating International Co., Ltd) upgrade the credit rating of China South International from AA rating to AA+ rating in July 2016. This reflected the PRC rating agency's recognition of China South International's performance.

China South City's market-leading position and proven business model have been well recognized by the capital market, as evident in the Group being designated a constituent of the Hang Seng Composite Mid Cap Index and MSCI China Index.

Further Strengthening of our Shareholder Base

After 1H FY2016/17, the Company was informed by Mr. Cheng Chung Hing, the Co-Chairman and Executive Director, that he had signed the Letter of Intent with Centralcon on 27 October 2016. Centralcon is a Shenzhen-listed Class I Real Property Developer in the PRC, and the Letter of Intent was in relation to the proposed share transfer representing approximately 23.20% equity stake in the Company ("**Proposed Transaction**"). The consideration of which was set at between HK$1.80 to HK$2.20 per share. Upon completion of the Proposed Transaction, Mr. Cheng will remain as Co-Chairman and Executive Director, while Centralcon will become the single largest shareholder and a substantial shareholder of the Company. The details of the Proposed Transaction are subject to agreement between the parties.

The potential introduction of Centralcon as a substantial shareholder is set to further strengthen the Group's shareholder base. The transaction is expected to bring synergy and increase the competitiveness of both companies, as well as combine their resources as listed companies in both PRC and Hong Kong. These benefits will stem from Centralcon's extensive experience in residential property development, high-end hotel and commercial property management, as well as China South City's expertise in the development and operation of integrated large-scale trade and logistics centers.

The core management team of China South City, including Mr. Cheng as the Co-Chairman and Executive Director, will basically remain unchanged after the introduction of Centralcon. Mr. Cheng is optimistic on the business outlook of both the Company and Centralcon. He is also actively looking into investment opportunities in Centralcon and becoming an important shareholder of Centralcon, subject to applicable laws and other regulations.

Land Bank

With the Group's unique business model of "One Body with Two Wings", the Group intends to retain the commercial properties like logistics and warehousing facilities and hotels, as well as not less than 50% of the trade center units for self-use or long-term rental purposes, while the remaining 50% of the trade center units and the residential properties will be disposed progressively to generate cash flow for the development of the Group.

In view of the strategic importance of CSC Zhengzhou to the Group's long-term prospects, as well as the broadening of its revenue base, the Group acquired new plots of land in Zhengzhou in this fiscal year to support the long-term development of this project. Since this fiscal year, the Group acquired a site spanning approximately 959,600 sq. m. at CSC Zhengzhou for RMB1,570.68 million. Besides, according to the Group's development plans, the Group has also acquired new plots of land mainly for the purpose of residential and logistic and warehouse with a site area of approximately 975,700 sq.m. with a total consideration of RMB856.84 million for the other entities of the Group during this fiscal year.

Details of the land bank as at 30 September 2016 are as follows:

Project	Completed Properties		Properties under Development	Properties to be Completed by FY2016/17	Properties Planned for Future Development on GFA Acquired	Total Planned GFA	Attributable GFA Acquired (% to Total Planned GFA)	
(sq. m.)	*Sold*	*Unsold*		*Estimated*	*Estimated*	*Estimated*		%
CSC Shenzhen	776,500	1,615,800	165,000	–	86,700	2,644,000	2,644,000	100%
CSC Nanchang	887,600	811,300	1,131,200	111,700	1,835,100	7,297,000	4,665,200	64%
CSC Nanning	349,000	1,038,800	558,500	352,900	533,700	4,880,000	2,480,000	51%
CSC Xi'an	612,500	743,500	601,200	306,600	2,649,500	17,500,000	4,606,700	26%
CSC Harbin	307,000	865,500	1,023,200	358,000	2,536,700	12,000,000	4,732,400	39%
CSC Zhengzhou	1,056,000	1,581,900	1,540,200	410,800	2,075,600	12,000,000	6,253,700	52%
CSC Hefei	867,500	372,600	2,179,200	550,000	1,781,700	12,000,000	5,201,000	43%
CSC Chongqing	218,000	1,040,300	217,200	65,900	4,129,600	13,500,000	5,605,100	42%
Total	5,074,100	8,069,700	7,415,700	2,155,900	15,628,600	81,821,000	36,188,100	44%

China South City Shenzhen

CSC Shenzhen, the Group's first project, is strategically located at the heart of the Pearl River Delta region amid an extensive transportation network. The project is situated at the Pinghu Logistics Park in Longgang District of Shenzhen, occupying a site area of approximately 1.06 million sq. m. and comprising a total planned GFA of approximately 2.64 million sq. m..

With the local government is further advancing the development of Longgang District as an innovation center in the east of Shenzhen, the district's ancillary facilities such as logistics, healthcare and education will continue to improve and bring more convenience to occupants of China South City. In addition, transportation facilities around the project have been improving. According to Shenzhen Metro planning, the subway line 10 which will pass through CSC Shenzhen has commenced construction in 2015 and is expected to be open for traffic by 2020. Upon completion, this subway line will further improve accessibility, generate more business opportunities and increase visitor traffic to the project. At present, CSC Shenzhen's operation cover industries such as textile & clothing, leather & accessories, electronic parts, printing, paper products & packaging, metals, chemicals and plastics materials, outlets and home furnishing, etc.

As at 30 September 2016, trade centers and ancillary facilities at phase I, phase II and part of phase III with a total GFA of approximately 2.39 million sq. m. were in operation. The project is currently under phase III development. During the Period, construction of GFA of approximately 77,700 sq. m. of office ancillary facilities was completed. As at 30 September 2016, construction of GFA of approximately 165,000 sq. m. is underway.

In 1H FY2016/17, CSC Shenzhen recorded total Contracted Sales of approximately HK$632.4 million (1H FY2015/16: HK$492.7 million), including a GFA of 300 sq. m. of trade center (mall style) at an average selling price ("**ASP**") of HK$29,300/sq. m. (1H FY2015/16: 4,200 sq. m. at an ASP of HK$21,900/sq. m.), a GFA of 51,000 sq. m. of office units at an ASP of HK$12,200/sq. m. (1H FY2015/16: 35,500 sq. m. at an ASP of HK$11,200/sq. m.) and Nil in residential ancillary (1H FY2015/16: GFA of 200 sq. m. at an ASP of HK$9,800/sq. m.).

China South City Nanchang

CSC Nanchang is located at the Yangtze River Delta transportation hub and the Pearl River Delta Economic Zone. Situated in the capital of Jiangxi Province, the project 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, which has commenced operation successively since September 2013. As a new business center for Nanchang, Honggutan New District's administrative, commercial and cultural functions are becoming more apparent by the day. In addition, the gradual completion of life-supporting amenities within the new district is driving visitor traffic and generating business opportunities, laying a solid foundation for the development of CSC Nanchang.

CSC Nanchang has a total planned land area of approximately 2.81 million sq. m. and a total planned GFA of approximately 7.30 million sq. m.. The trial operations of CSC Nanchang cover industries such as small commodities, textile & clothing, leather & accessories and healthy & green products, etc. As the first provincial-level E-commerce Model Base in Jiangxi and University Students' E-commerce Business Incubator in Nanchang, through a profound integration of wholesale and E-commerce resources, it has created a closer co-operation between the E-commerce start-ups and manufacturing enterprises, thereby helping SMEs within the project to transform and upgrade their businesses.

As at 30 September 2016, CSC Nanchang has a total GFA of approximately 1.70 million sq. m. completed in phase I, including approximately 1.07 million sq. m. of trade centers, approximately 585,800 sq. m. of residential ancillary and approximately 44,500 sq. m. of warehousing facilities. CSC Nanchang phase II construction has commenced. During the Period, construction of approximately 168,000 sq. m. GFA of trade center was completed. As at 30 September 2016, construction of a GFA of approximately 1.13 million sq. m. is underway, of which approximately 111,700 sq. m. are expected to be completed in FY2016/17.

In 1H FY2016/17, CSC Nanchang recorded total Contracted Sales of HK$1,977.8 million (1H FY2015/16: HK$283.2 million), a GFA of 14,000 sq.m. of trade center units (detached style) at an ASP of HK$8,900/sq.m. (1H FY2015/16: Nil) and a GFA of 209,500 sq. m. of residential ancillary at an ASP of HK$8,800/sq. m. (1H FY2015/16: 35,000 sq. m. at an ASP of HK$7,900/sq. m.). Nil in trade center units (mall style) (1H FY2015/16: GFA of 300 sq. m. at an ASP of HK$20,000/sq. m.) were sold during the Period.

China South City Nanning

CSC Nanning is located in Nanning, the capital of the Guangxi Zhuang Autonomous Region and a critical gateway between China and ASEAN countries. It is easily accessible by railway stations, highways and an international airport. Strategically located in close proximity to Southeast Asia and enjoying the 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 catering 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 total planned GFA of approximately 4.88 million sq. m.. The project is under trial operations, covering industries such as textiles & clothing, small commodities, ASEAN products, household goods, tea & teaware and outlets, etc., and continued to cultivate the market and strengthen marketing efforts during the Period. Through organizing a series of exhibitions – such as the China-ASEAN Expo and Light Industrial Exhibition and Spring Tea Festival – the project is gaining increased market popularity and is enhancing its local brand recognition. During the Period, residential properties launched by CSC Nanning received an overwhelming response from the market. With government bodies, major banks, hotels and cinema moving in, the ancillary facilities and services of the project have been further enhanced. To assist SMEs in resolving business loan difficulties, CSC Nanning launched, on a trial basis, a micro-credit service for SMEs in the project, providing them strong financial support for the development of businesses during the Period.

CSC Nanning is currently in phase I construction and has a total completed GFA of approximately 1.39 million sq. m., including approximately 894,600 sq. m. of trade centers, approximately 456,400 sq. m. of residential ancillary and approximately 36,800 sq. m. of logistics and warehousing facilities. As at 30 September 2016, construction of approximately 558,500 sq. m. GFA is underway, of which approximately 352,900 sq. m. is expected to be completed in FY2016/17.

In 1H FY2016/17, CSC Nanning recorded total Contracted Sales of HK$474.7 million (1H FY2015/16: HK$191.5 million), including a GFA of 300 sq. m. of trade center units (mall style) at an ASP of HK$19,300/sq. m. (1H FY2015/16: 1,800 sq. m. at an ASP of HK$19,900/sq. m.), a GFA of 69,100 sq. m. of residential ancillary at an ASP of HK$6,700/sq. m. (1H FY2015/16: 21,800 sq. m. at an ASP of HK$7,100/sq. m.), and a GFA of 500 sq. m. of office units at an ASP of HK$9,900/sq. m. (1H FY2015/16: Nil).

China South City Xi'an

CSC Xi'an is located at the Xi'an International Trade and Logistics Park in Shaanxi Province. Built as a key project by the local government, the park is an open economic pilot zone and a core function area for the modern service industry. It aims to become the largest international transit hub port and logistics distribution center along the Silk Road Economic Belt and to act as an important strategic platform for the "One Belt, One Road" initiative. The project is highly accessible and enjoys geographical advantages via the Xi'an City Expressway and Beijing-Kunming Expressway, Lianyungang-Khorgos Expressway, Shanghai-Shaanxi Expressway, Baotou-Maoming Expressway and other national highways, forming an intricate spider network branching in all directions.

Leveraging the strategic location of Xi'an International Trade and Logistics Park, CSC Xi'an 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. The subway line 3 which passes through the CSC Xi'an has commenced trial operations from 8 November 2016. In addition, a new stadium is slated to be built at the International Trade and Logistics Park to host the 14th National Games of the People's Republic of China in 2021, which is expected to greatly boost visitor traffic in the region. The completion of the subway line and the new stadium is expected to generate more business opportunities and visitor traffic for the International Trade and Logistics Park, and further increase the value of CSC Xi'an.

The trial operations of CSC Xi'an cover industries such as hardwares & machinery, textile & clothing, leather & fur and the Central China & ASEAN product exhibition center, etc. Leveraging its geographical advantage in the starting point of the Silk Road Economic Belt, CSC Xi'an is actively poised to capture the immense opportunities arising from the "One Belt, One Road" initiative.

CSC Xi'an has a total planned land area of approximately 10.0 million sq. m. and a total planned GFA of approximately 17.5 million sq. m.. The project is under phase I construction and has a total GFA of approximately 1.36 million sq. m. completed, including approximately 1.28 million sq. m. of trade centers, approximately 55,800 sq. m. of logistics and warehousing facilities and approximately 23,300 sq. m. of ancillary facilities. As at 30 September 2016, construction of a GFA of approximately 601,200 sq. m. is underway, of which approximately 306,600 sq. m. are expected to be completed in FY2016/17.

In 1H FY2016/17, CSC Xi'an recorded total Contracted Sales of HK$162.3 million (1H FY2015/16: HK$212.1 million), including a GFA of 300 sq. m. of trade center units (mall style) at an ASP of HK$15,900/sq. m. (1H FY2015/16: 4,400 sq. m. at an ASP of HK$13,700/sq. m.) and a GFA of 25,600 sq. m. of trade center units (detached style) at an ASP of HK$6,200/sq. m. (1H FY2015/16: 23,900 sq. m. at an ASP of HK$6,300/sq. m.).

China South City Harbin

Located at the Daowai District of Harbin, the capital of Heilongjiang Province, CSC Harbin fully taps into its advantageous location in Northeast China, a premier hub for cross-border trade with Northeastern Asian countries. Its proximity to the China-Russia border helps to facilitate economic activities within the region. Tapping into the opportunities arising from the area's development potential, CSC Harbin endeavors to become the largest integrated logistics and trade center in Northeast China. The project has a planned land area of approximately 10.0 million sq. m. and a total planned GFA of approximately 12.0 million sq. m..

Leveraging its own geographical location and local industrial advantages, CSC Harbin actively promotes regional economic and trade development. During the Period, the Northeast Asia green food exhibition center as well as Sino-Russia Trading Building and Petersburg Hotel commenced trial operation progressively. For ancillary facilities, phase I of Qianlong Logistics Park was completed and commenced operation during the Period, further catering to the logistics and warehousing demand from China South City and its surrounding businesses. Currently, CSC Harbin's planned operations cover industries such as hardware & construction materials, green food, small commodities, hotel commodities and leather & fur and outlets, etc.

CSC Harbin is currently under phase I construction and has a total GFA of approximately 1.17 million sq. m. completed, including approximately 773,100 sq. m. of trade centers, approximately 59,200 sq. m. of logistics and warehousing facilities, approximately 22,500 sq. m. of ancillary facilities and approximately 317,700 sq. m. of residential ancillary. As at 30 September 2016, construction of a GFA of approximately 1.02 million sq. m. is underway, of which approximately 358,000 sq. m. are expected to be completed in FY2016/17.

In 1H FY2016/17, CSC Harbin recorded total Contracted Sales of HK$54.1 million (1H FY2015/16: HK$146.0 million), including a GFA of 300 sq. m. of trade center units (mall style) at an ASP of HK$11,300/sq. m. (1H FY2015/16: Nil), a GFA of 1,500/sq. m. of trade center units (detached style) at an ASP of HK$8,900/sq. m. (1H FY2015/16: 11,500 sq. m. at an ASP of HK$9,200/sq. m.) and a GFA of 8,000 sq. m. of residential ancillary at an ASP of HK$4,700/sq. m. (1H FY2015/16: 7,900 sq. m. at an ASP of HK$5,100/sq. m.).

China South City Zhengzhou

CSC Zhengzhou is located at the AEZ of Zhengzhou, the capital of Henan Province. The experimental zone is the only state-level AEZ with a complete network which includes an international airport, high-speed train, intercity train, metro and highway and acts as an integrated transport hub providing seamless connectivity. The project is highly accessible and enjoys extensive transportation links – it is a mere 16 km away from Zhengzhou Xinzheng International Airport and only a couple of kilometers away from both the Beijing-Guangzhou Railway Freight Station and the Beijing-Hong Kong-Macao Highway. According to Zhengzhou Metro Planning, the extension of subway line 2 which connects the downtown area to the AEZ of Zhengzhou and passes through CSC Zhengzhou with three stops has commenced trial operation recently. Upon completion, this subway line will generate increased business opportunities and visitor traffic for the project.

CSC Zhengzhou has a total planned net land area of approximately 7.0 million sq. m. and a total planned GFA of approximately 12.0 million sq. m.. The project has received overwhelming support from the local government since its establishment. With more occupants moving in, the Group's trial online membership program and E-commerce project saw increasing popularity among SMEs. In response to SMEs' operational demand, the Group continued to increase the supply of logistics and warehousing facilities. Of which, its LIEP, which helps cargo owners match their freight plans more effectively by utilizing otherwise empty truckloads of HGVs on their return journeys, will begin trial operation in the second half of this fiscal year. In addition, the outlet mall in CSC Zhengzhou will also commence operation in the second half of this fiscal year and is expected to enrich the business diversity of the project. The trial operations of CSC Zhengzhou cover industries such as building & decoration materials, small commodities, machinery & hardware, automobile & parts, and non-staple food, etc.

CSC Zhengzhou is currently under phase I development and has a total GFA of approximately 2.64 million sq. m. completed, including approximately 2.43 million sq. m. of trade centers, approximately 188,900 sq. m. of logistics and warehousing facilities and approximately 21,900 sq. m. of ancillary facilities. During the Period, construction of a GFA of approximately 138,600 sq. m. of trade centers, warehouse facilities and other ancillary facilities were completed. As at 30 September 2016, construction of a GFA of approximately 1.54 million sq. m. is underway, of which approximately 410,800 sq. m. are expected to be completed in FY2016/17.

In 1H FY2016/17, CSC Zhengzhou recorded total Contracted Sales of HK$56.2 million (1H FY2015/16: HK$1,862.2 million), including a GFA of 1,700 sq. m. of trade center units (mall style) at an ASP of HK$12,600/sq. m. (1H FY2015/16: 116,000 sq. m. at an ASP of HK$12,600/sq. m.) and a GFA of 4,400 sq. m. of trade center units (detached style) at an ASP of HK$7,900/sq. m. (1H FY2015/16: 48,300 sq. m. at an ASP of HK$8,400/sq. m.).

China South City Hefei

CSC Hefei is located in Hefei, the capital 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 a planned transportation system which includes railways, highways and river transportation across China. CSC Hefei has a total planned net land area of approximately 10.0 million sq. m. and a total planned GFA of approximately 12.0 million sq. m.

During the Period, CSC Hefei stepped up the construction of ancillary facilities in response to the growth in the market. The residential ancillary of CSC Hefei were well-received by the market with robust growth in Contracted sales. The construction of logistics and warehousing facilities, outlets and the HOBA Furnishing mall also progressed smoothly. Currently, the planned operations of CSC Hefei cover industries such as automobile & parts, hardware, electric appliances, building & decoration materials, clothing, small commodities, non-staple food and tea, etc.

CSC Hefei is currently under phase I construction and has a total GFA of approximately 1.24 million sq. m. completed, including approximately 1.01 million sq. m. of trade centers, approximately 208,500 sq. m. of residential ancillary and approximately 20,800 sq. m. of ancillary facilities. As at 30 September 2016, construction of a GFA of approximately 2.18 million sq. m. is underway, of which approximately 550,000 sq. m. are expected to be completed in FY2016/17.

In 1H FY2016/17, CSC Hefei recorded total Contracted Sales of HK$859.2 million (1H FY2015/16: HK$197.0 million), Nil in trade center units (detached style) (1H FY2015/16: GFA of 13,000 sq. m. at an ASP of HK$8,000/sq. m.) and a GFA of 132,600 sq. m. of residential ancillary at an ASP of HK$6,500/sq. m. (1H FY2015/16: 15,800 sq. m. at an ASP of HK$5,900/sq. m.) during the Period.

China South City Chongqing ("CSC Chongqing")

CSC Chongqing is strategically located at the Banan District of Chongqing Municipality, the first of the Group's municipal projects. The project is highly accessible from the city center and other regions given its strategic location in the Chongqing Highway Logistics Base, a state-level transportation infrastructure and highway base for the western region.

CSC Chongqing is currently under construction. Both the transportation network and Banan District's business development around the project has been developed rapidly. The project lays a strong foundation for the future transportation convenience and commercial environment in the area. CSC Chongqing plans to cover industries such as small commodities, hardware & machinery, non-staple food & tea, building & decoration materials, textiles & clothing and automobile & parts, etc.

CSC Chongqing has a total planned net land area of approximately 6.3 million sq. m. and a total planned GFA of approximately 13.5 million sq. m.. CSC Chongqing is under phase I development with a total GFA of approximately 1.26 million sq. m. completed, including approximately 1.14 million sq. m. of trade centers, approximately 36,500 sq. m. of ancillary facilities and approximately 79,500 sq. m. of warehouse facilities. During the Period, construction of a GFA of approximately 100,200 sq. m. of ancillary facilities and warehouse facilities were completed. As at 30 September 2016, construction of GFA of approximately 217,200 sq. m. is underway and approximately 65,900 sq. m. is expected to be completed in FY2016/17.

In 1H FY2016/17, CSC Chongqing recorded total Contracted Sales of HK$98.9 million (1H FY2015/16: HK$411.6 million), including a GFA of 12,400 sq. m. of trade center units (detached style) at an ASP of HK$8,000/sq. m. (1H FY2015/16: 53,700 sq. m. at an ASP of HK$7,700/sq. m.).

Financial Review

For the Period, when compared to the same period of last year, the revenue of the Group increased 34.4% to HK$2,892.8 million (six months ended 30 September 2015: HK$2,152.9 million), and net profit attributable to owners of the parent increased 13.4% to HK$856.9 million (six months ended 30 September 2015: HK$755.8 million). Excluding the effects of fair value gains on investment properties and related tax effects and profit or loss on purchase and redemption of senior notes, core net profit attributable to owners of the parent for the Period as adjusted increased by 30.8% to HK$258.6 million (six months ended 30 September 2015: HK$197.7 million). Basic earnings per share increased to HK10.70 cents (six months ended 30 September 2015: HK9.45 cents).

Revenue

Revenue for the Period increased by 34.4% to HK$2,892.8 million (six months ended 30 September 2015: HK$2,152.9 million) when compared to the same period of last year. The increase was mainly attributable to more properties were sold and delivered in Nanchang, Harbin and Hefei projects during the Period and the growing recurring revenue.

	For the six months ended 30 September		
	2016	2015	Change
	HK$'000	*HK$'000*	%
Sales of properties and finance lease income	**2,156,313**	1,549,639	39.1
Sales of trade center units	***1,209,415***	*1,119,183*	*8.1*
Sales of residential properties	***887,778***	*311,225*	*185.3*
Finance lease income	***59,120***	*119,231*	*-50.4*
Recurring income	**736,486**	603,215	22.1
Rental income	***353,457***	*333,951*	*5.8*
Property management service income	***153,168***	*87,980*	*74.1*
E-commerce income	***63,438***	*50,797*	*24.9*
Other revenue	***166,423***	*130,487*	*27.5*
	2,892,799	2,152,854	34.4

Sales of Properties and Finance Lease income

Revenue from sales of properties increased by 46.6% to HK$2,097.2 million (six months ended 30 September 2015: HK$1,430.4 million). The increase was mainly attributable to the sales and delivery of properties in Nanchang, Harbin and Hefei projects during the Period. Sales for each project are as follows:

	Average selling price (before deduction of sales tax*) (HK$/sq. m.)		**GFA sold (sq. m.)**		**Sales revenue (before deduction of sales tax*) HK$ million**		**Sales revenue (net of sales tax*) HK$ million**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
CSC Shenzhen	**31,000**	21,900	**300**	4,200	**8.8**	92.6	**8.4**	87.5
CSC Nanchang								
– Trade center units	**9,000**	21,600	**82,800**	100	**777.7**	3.1	**736.0**	2.9
– Residential properties	**9,000**	8,000	**20,600**	21,800	**179.4**	174.9	**169.7**	165.2
CSC Nanning								
– Trade center units	**18,000**	19,900	**300**	1,800	**5.8**	36.6	**5.6**	34.5
– Residential properties	**7,000**	7,100	**14,100**	21,800	**93.5**	154.9	**88.3**	146.1
CSC Xi'an	**8,000**	8,400	**10,800**	18,300	**91.5**	153.1	**86.6**	144.6
CSC Harbin								
– Trade center units	**11,000**	11,100	**1,800**	2,700	**20.0**	30.3	**18.0**	28.6
– Residential properties	**5,000**	–	**74,900**	–	**353.2**	–	**334.5**	–
CSC Zhengzhou	**11,000**	9,400	**22,700**	64,300	**248.0**	604.6	**235.0**	571.4
CSC Hefei								
– Trade center units	**8,000**	7,100	**4,400**	4,300	**35.6**	30.6	**34.0**	28.9
– Residential properties	**6,000**	–	**51,200**	–	**312.2**	–	**295.3**	–
CSC Chongqing	**8,000**	7,500	**11,600**	31,100	**90.7**	233.9	**85.8**	220.7
Total	**N/A**	N/A	**295,500**	170,400	**2,216.4**	1,514.6	**2,097.2**	1,430.4

* *Sales tax represents business tax and surcharges on or before 30 April 2016 and value-added-tax and surcharges after 30 April 2016.*

Finance lease income derived from the leasing of office units and residential properties decreased by 50.4% to HK$59.1 million (six months ended 30 September 2015: HK$119.2 million). The decrease was primarily attributable to the low inventory level of office units at CSC Shenzhen.

During the Period, the Group entered into finance lease arrangements with tenants for approximately 5,600 sq. m. (six months ended 30 September 2015: 10,400 sq. m.) at an average price of HK$11,100/sq. m. (six months ended 30 September 2015: HK$12,300/sq. m.).

Rental Income

In the long run, the Group intends to retain not less than 50% of the trade center units for self-use or rental purposes and rental income will therefore be an important component of the recurrent income. CSC Shenzhen, being the Group's most matured project in its portfolio, contributed substantial part of the rental income. Along with the gradual extension of the trial operations in other projects, these projects will gradually start to contribute rental income. For the HOBA Furnishing mega stores planned in CSC Nanning and CSC Shenzhen has now been in its trial operations which helped to enrich the business industries in the projects. During the Period, rental income increased year-on-year by 5.8% to HK$353.5 million (six months ended 30 September 2015: HK$334.0 million).

As at 30 September 2016, the total occupancy rate of the launched rentable GFA of phase I, phase II and phase III trade centers and shops of CSC Shenzhen were ranged from 71% to 93% (as at 30 September 2015: 62% to 94%), while the average rental rate ranged from HK$37/sq. m. to HK$55/sq. m. (as at 30 September 2015: HK$38/sq. m. to HK$56/sq. m.).

Property Management Service Income

Income from property management services rose by 74.1% to HK$153.2 million (six months ended 30 September 2015: HK$88.0 million). The increase in income was mainly attributable to the increasing operating trade center areas of CSC Nanchang and CSC Zhengzhou, and the gradual increasing portion of residential properties. The increasing operating areas of these projects bring along the increase in property management service income during the Period.

E-commerce Income

E-commerce income, derived from the E-commerce services provided to the Group's customers, increased by 24.9% to HK$63.4 million (six months ended 30 September 2015: HK$50.8 million) during the Period. The online membership programme of the Group were widely appreciated by customers. By joining the programme, the occupants will enjoy the full range of E-commerce service offered by the Group's E-commerce platform, CSC86.com.

Other Revenue

Other revenue rose by 27.5% to HK$166.4 million (six months ended 30 September 2015: HK$130.5 million). The increase was mainly attributable to the continuous growth of the outlet operations and logistics and warehousing services, with revenue from outlet operations increased 39.7% to HK$83.2 million (six months ended 30 September 2015: HK$59.6 million) while that of logistic and warehousing services increased 13.8% to HK$74.9 million (six months ended 30 September 2015: HK$65.8 million) respectively during the Period.

Increase in income from outlet operations was mainly due to the growth of outlet center business and the increase in operating areas in the established outlets during the Period. The increase in income from logistics and warehousing services was mainly due to the increase in operating areas of warehousing during the Period.

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. During the Period, cost of sales increased by 57.4% to HK$1,650.2 million (six months ended 30 September 2015: HK$1,048.7 million). The increase in cost of sales was in line with the increase of GFA of properties sold during the Period.

Gross Profit

Gross profit increased by 12.5% to HK$1,242.6 million (six months ended 30 September 2015: HK$1,104.2 million). During the Period, gross profit margin decreased to 43% (six months ended 30 September 2015: 51%) which was mainly due to the change in product mix of sales with a higher portion of residential properties which had a relatively lower profit margin.

Other Income and Gains/(Losses)

Other income and gains increased by 35.7% to HK$684.2 million (six months ended 30 September 2015: HK$504.1 million), mainly attributable to the government grants of HK$740.9 million (six months ended 30 September 2015: HK$542.7 million).

Fair Value Gains on Investment Properties

The fair value gains on investment properties increased by 20.8% to HK$963.1 million (six months ended 30 September 2015: HK$797.3 million). The increase was mainly contributed by the addition of new investment properties at the existing projects.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 5.3% to HK$395.5 million (six months ended 30 September 2015: HK$417.7 million). The decrease was mainly attributable to the effective cost control measures taken as to marketing activities for promoting the sales of properties during the Period.

Administrative Expenses

Administrative expenses decreased by 6.9% to HK$563.1 million (six months ended 30 September 2015: HK$604.5 million). The decrease was primarily due to the Group's optimisation of human resources and the effective control of administrative costs. During the Period, the Group granted 70,500,000 share options to certain employees. Together with share options issued in prior periods, share options expenses of HK$18.3 million (six months ended 30 September 2015: HK$11.1 million) were recorded.

Finance Costs

Finance costs increased by 19.9% to HK$109.9 million (six months ended 30 September 2015: HK$91.6 million). The increase was mainly attributable to an increase in bank and other borrowings for general business purposes with interest expenses recorded through profit or loss. As at the end of September 2016, the Group's weighted average financing cost was 6.2%, as compared with 6.3% at the end of March 2016.

Tax

Tax expenses recorded an increase of 70.0% to HK$882.1 million (six months ended 30 September 2015: HK$518.9 million). The increase in tax expenses was in line with the increase of revenue during the Period.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables increased by 17.4% to HK$916.8 million (31 March 2016: HK$781.3 million), mainly due to the increase in deposits paid for construction of new projects.

Trade and Other Payables

Trade and other payables increased by 18.9% to HK$15,780.4 million (31 March 2016: HK$13,269.7 million). The increase was mainly due to the increase in deposits and receipts in advance arising from our contracted sales during the Period. As at 30 September 2016, the balance of construction fees and retention payable and deposits received and receipts in advance were HK$7,264.1 million and HK$6,550.6 million, respectively.

Liquidity and Financial Resources

The Group finances its development and operations primarily through internally generated funds, bank and other borrowings, and the issuance of different notes on-shore and off-shore, which includes but not limited to senior notes, short-term notes, medium-term notes, corporate bonds and domestic company bonds.

Cash and Cash Equivalents and Restricted Cash

As at 30 September 2016, the Group had HK$8,259.0 million cash and cash equivalents and restricted cash (31 March 2016: HK$11,686.7 million), among which non-restricted cash and cash equivalents amounted to approximately HK$6,879.2 million (31 March 2016: HK$9,327.8 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 2016, the Group had approximately HK$31,059.8 million (31 March 2016: HK$33,808.6 million) which included interest-bearing bank and other borrowings, senior notes, short-term notes, medium-term notes, corporate bonds and domestic company bonds.

Interest-bearing bank and other borrowings

The Group had aggregated interest-bearing bank and other borrowings of approximately HK$13,479.7 million as at 30 September 2016 (31 March 2016: HK$16,622.7 million), of which HK$5,873.8 million will be repayable within one year or on demand, approximately HK$4,501.1 million will be repayable in the second year, approximately HK$2,789.6 million will be repayable in the third to fifth years and approximately HK$315.2 million will be repayable after five years. As at 30 September 2016, the Group's interest-bearing bank and other borrowings of approximately HK$11,105.7 million were secured by certain buildings, investment properties, properties under development, properties held for sales and bank deposits with a total carrying value of approximately HK$25,881.8 million.

Except for the bank loan with balance of HK$300 million denominated in HK dollars and bears interest at floating rates of HIBOR+2.65% (31 March 2016: HIBOR+2.65%), the other interest-bearing bank and other borrowings of the Group were denominated in Renminbi with interest rates range from 4.13% to 7.25% (31 March 2016: 3.3% to 7.5%) per annum. Furthermore, as at 30 September 2016, the Group had unused banking facilities of approximately HK$5,411.7 million. The Group will deploy these banking facilities as appropriate, depending on project development needs and working capital status.

Issuance of Notes

Senior Notes

In October 2012, the Company 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 ("**2012 Notes**") 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. In April 2016, the Company has fully early redeemed this senior notes at premium in accordance to the terms and conditions of this notes and resulted in a loss on redemption of HK$87.0 million.

In January 2014, the Company issued senior notes due in January 2019 with a nominal value of US$400 million (equivalents to approximately HK$3,120 million) at a coupon rate of 8.25% per annum ("**2014 Notes**") for the purpose of redeeming all of the outstanding senior notes due in January 2016, with which the coupon rate was 13.5% per annum, and for general corporate purposes.

In September and October 2016, the Company issued senior notes due in September 2021 with a nominal value of US$200 million (equivalents to approximately HK$1,560 million) and US$150 million (equivalents to approximately HK$1,170 million) respectively at a coupon rate of 6.75% per annum for the purpose of refinancing existing indebtedness and for general corporate purposes.

Short-Term Notes

In September 2014, China South International obtained the relevant approval for issuing the short-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB4.3 billion. In September 2015, China South International issued the first tranche of the short-term notes of 2015 ("**2015 First Tranche STN**") with a total principal amount of RMB2.1 billion with a maturity period of 1 year and at an interest rate of 4.3% per annum. The proceeds thereof were to be used for replacement of bank borrowings of the Group. The 2015 First Tranche STN have been repaid in September 2016. In September 2016, China South International issued the first tranche of the short-term notes of 2016 with a total principal amount of RMB1.2 billion with a maturity period of 1 year and at an interest rate of 4.9% per annum. The proceeds thereof were to be used for general corporate purpose and repaying part of the bank loans of the Group.

Medium-Term Notes

In April 2014, China South International obtained the relevant approval for the issuing medium-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB4 billion. In May 2014, China South International issued the first tranche of the medium-term notes of 2014 with a total principal amount of RMB1 billion with a maturity period of 5 years and at an interest rate of 7.5% per annum. The proceeds thereof were to be used for repaying part of short-term bank loans of the Group. In September 2014, China South International issued the second tranche of the medium-term notes of 2014 with a total principal amount of RMB1 billion with a maturity period of 5 years and at an interest rate of 8.4% per annum. The proceeds thereof were to be used for repaying part of bank loans of the Group. In July 2015, China South International issued the first tranche of the medium-term notes of 2015 with a total principal amount of RMB2 billion with a maturity period of 3 years and at an interest rate of 7.0% per annum. The proceeds thereof were to be used for replacement of bank loans of the Group and the construction of CSC Nanning project.

Corporate Bonds

In March 2015, China South International obtained the relevant approval for issuing the corporate bonds in a maximum principal amount of RMB1.5 billion in the PRC. In April 2015, China South International issued of the corporate bonds with a total principal amount of RMB1.5 billion with a term of up to 6 years in maximum and at an interest rate of 7.0% per annum. The proceeds thereof were to be used for funding the development of CSC Zhengzhou project.

Domestic Company Bonds

In December 2015, China South International obtained the relevant approval for issuing the domestic company bonds in a maximum principal amount of RMB4.4 billion in the PRC. In January 2016, China South International issued the first tranche of domestic company bonds of 2016 with a total principal amount of RMB3 billion with a term of 3 years and at an interest rate of 5.98% per annum. The proceeds thereof were to be used for repaying part of bank loans of the Group and for general working capital. In May 2016, China South International issued the second tranche of domestic company bonds of 2016 with a total principal amount of RMB1.4 billion with a term of 3 years and at an interest rate of 6.85% per annum. The proceeds thereof were to be used for repaying part of bank loans of the Group and for general working capital.

As at 30 September 2016, the carrying value of China South International's short-term notes were HK$1,394.3 million, medium-term notes were HK$4,687.4 million, corporate bonds were HK$1,768.3 million and domestic company bonds were HK$5,275.8 million respectively.

Gearing Ratio

The Group's gearing ratio (net debt divided by total equity) was 88.1% as at 30 September 2016 and 83.9% as at 31 March 2016. The total liabilities over total assets ratio was 68.7% as at 30 September 2016 (31 March 2016: 68.4%).

Net Current Assets and Current Ratio

As at 30 September 2016, the Group had net current assets of HK$9,018.5 million (31 March 2016: HK$10,971.0 million) at a current ratio of 1.33 (31 March 2016: 1.39).

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. The guarantees granted to purchasers of trade centers and residential properties 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 the lessees repaid the loan. As at 30 September 2016, the guarantees amounted to HK$7,871.3 million (31 March 2016: HK$5,805.4 million).

Commitments

As at 30 September 2016, the Group had future capital expenditure contracted but not yet provided for in the amount of HK$9,169.0 million (31 March 2016: HK$7,350.5 million).

Acquisition and Disposal of Subsidiary and Associated Companies

The Group had no material acquisitions and disposals of subsidiaries and associated companies during the Period.

Foreign Exchange Risk

The Group conducts its business primarily in Renminbi. The income and bank deposits of the Group were substantially denominated in Renminbi to meet the Group's development and operation needs in the PRC. As at 30 September 2016, among the Group's total interest bearing debts of HK$31,059.8 million, approximately HK$4,754.2 million were denominated in US dollars or HK dollars and the rest were in Renminbi. The Group does not have material exposure to foreign exchange risk and no foreign currency hedging was done during the Period. The Group will monitor its foreign currency exposure and consider hedging arrangement if such need arise.

Economic, Commercial and Other Risks

The Group may be exposed to the risk of negative developments in national and regional economies, property and financial markets. It may result in reductions in sales prices of the properties, rent rates and occupancy rates of properties, and demand for ancillary services and facilities it provides. It may also result in recession, inflation, deflation and currency fluctuations as well as restrictions in the availability of credit, increases in financing and other operating costs. The development of the Group's projects may subject to market risks as it usually takes time to complete. Though the Group appoints quality partners for the development of its projects, it may still be subject to associated risk of the quality and safety of the products and services provided by the Group. The Group may also be subject to a number of regulatory environments in the territories in which it operates. Changes in the regulatory approach to such matters as ownership of assets and businesses, regulations related to development and operations, exchange controls, tax rules and employment legislation may impact the business of the Group. Changes in the political environment in such territories may also affect the Group. The management of the Group will keep abreast of the environment and policy changes and make the necessary adjustments in response to such changes, if any. Further steps taken by the Group to manage the financial risk can be read in conjunction with note 47 to the financial statements as set out in the Company's 2015/16 Annual Report.

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 long term blueprints of relevant projects. These agreements generally set out the size and use of lands and the related development plans. However, the actual acquisition of lands, land area and terms and conditions of such acquisition are subject to the relevant regulations and local governments' requirements, the Group's development plans and the results of the relevant public tender, auction and listing. Since the development of each of these projects may last for more than ten years, the Group and the local government may agree to adjust the details of these agreements to align with the actual needs of project developments.

The progress of the land acquisition and project development depend on the progress of the Group's planning, as well as the procedural formalities as determined by the local government departments. As the procedures and requirements set by different local governments vary, the Group may adjust the development of each project according to relevant conditions. In view of its substantial land bank and flexibility in project planning, the Group believes such circumstances will not have material impact on its development as a whole.

Pursuant to certain project and land related contracts and documents, some of the land acquired by the Group may have sales restrictions on properties built on it. These include the saleable area of trade centers of CSC Shenzhen is limited to 30% of the total buildable GFA of properties built on the relevant parcels of land. The saleable area of trade centers and logistics facilities built on certain parcels of land acquired by CSC Nanchang and CSC Nanning in 2010 are limited to 60% of the relevant total buildable GFA. The saleable area of trade centers built by CSC Hefei and CSC Chongqing are limited to 50% of their relevant total buildable GFA. The saleable area of trade centers of phase I and future phases of CSC Zhengzhou are limited to 60% and 50% respectively of its relevant total buildable GFA. Except for the restrictions mentioned herein, there is no sales restriction on other land acquired by the Group. According to the Group's business model, the Group intends to hold not less than 50% of trade centers and commercial facilities for leasing and self-use, the related sales restrictions will not have significant impact to the Group.

General Mandate Issue

Update on Use of Proceeds

On 15 January 2014, the Company entered into the Investment and Cooperation Agreement (the "**Agreement**") with THL H Limited ("**THL**"), a wholly-owned subsidiary of Tencent, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). Pursuant to such Agreement and the general mandate granted to the Directors at the annual general meeting of the Company held on 21 August 2013, THL has subscribed for 680,300,000 shares of the Company at a price of HK$2.20 per share ("**Subscription Shares**") on 23 January 2014 with a total consideration of approximately HK$1,500 million. In addition, the Company has granted an option to THL to subscribe for a further 244,800,000 shares at the price of HK$3.50 per share (subject to adjustments (if any)) ("**Option**"). In September 2014, THL noticed the Company to exercise the Option at the option price of HK$3.36 per share at the total consideration of approximately HK$822.5 million (as adjusted by the dividend declared by the Company) and the Company issued and allotted such shares to THL accordingly. Details of the Investment and Cooperation Agreement are set out in the announcements dated 15 January 2014, 23 January 2014, 23 September 2014 and 29 September 2014 respectively. The Company intends to use part of the net proceeds in certain areas of intended cooperation with the Tencent Group and the remaining will be used for general corporate purposes.

The net proceeds from the Subscription Shares and the exercise of Option were in an aggregate of approximately HK$2,319.2 million. As at 30 September 2016, the net proceeds thereof have been fully utilized on business related to E-commerce, logistics and general corporate purposes.

Human Resources

As at 30 September 2016, the Group had a workforce of approximately 6,590 people, including approximately 6,550 people directly employed by the Group and approximately 40 people employed by our associate. The number of the Group's staff decreased by 4.9% from 6,930 people as at 31 March 2016. 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, the Company granted 70,500,000 share options to the certain employees of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the Period, the Company has complied with all the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**").

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 throughout the six months ended 30 September 2016.

AUDIT COMMITTEE

The Audit Committee is responsible for the review and supervision of the Group's financial reporting process, risk management and internal controls system and review of the Company's financial statements. Their written terms of reference are in line with the provisions under the CG 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 and Mr. Yung Wing Ki Samuel. All of 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 2016 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

During the Period, the Company has early redeemed in full the 2012 Notes at the redemption price equal to 106.750% of the principal amount thereof, plus accrued and unpaid interest to (but not including) the redemption date. Upon such redemption, the 2012 Notes were cancelled and delisted from the official list of the Singapore Exchange Securities Trading Limited accordingly. In addition, the Group purchased part of the 2014 Notes with principal amount of US$20 million from the open market.

Save as disclosed above, neither the Company nor any of its subsidiaries had 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 2016

As at the date of this announcement, the executive Directors of the Company are Mr. Cheng Chung Hing, Mr. Leung Moon Lam and Mr. Fung Sing Hong Stephen; 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, Mr. Cheng Tai Po and Mr. Lin Ching Hua; 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, JP and Mr. Yung Wing Ki Samuel, SBS, MH, JP.

This announcement contains operating statistics for the Period and forward-looking statements relating to the business outlook, forecast business plans and growth strategies of the Group (collectively "Information Statements"). The Information Statements are unaudited and are made based on the Group's business plans, internal information, certain expectations, assumptions and premises, which may be subjective or beyond our control. They do not constitute warranties of future performance of the Group and subject to factors included but not limited to general industry and economic conditions and changes in government policies. With these, the Information Statements in this announcement should not be regarded as representations by the Board or the Company that they will be achieved, and investors should not place undue reliance on such Information Statements.