華南城

China South City Holdings Limited
華南城控股有限公司

(incorporated in Hong Kong with limited liability)
(Stock Code: 1668)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2020	2019	**Change**
	HK$'000	*HK$'000*	
	(Unaudited)	(Unaudited)	
Contracted sales	**8,070,818**	7,732,783	+4.4%
Revenue	**7,106,901**	5,827,158	+22.0%
Among which, Recurring income	**1,323,506**	1,197,059	+10.6%
Gross profit margin	**38%**	39%	
Core net profit attributable to owners of the parent*	**734,731**	501,749	+46.4%
Profit attributable to owners of the parent	**653,542**	628,170	+4.0%
Earnings per share – Basic	**HK8.08 cents**	HK7.75 cents	+4.3%
As at	**30 September 2020**	31 March 2020	
Cash and bank balances	**10,263,762**	10,303,541	-0.4%
Gearing ratio	**67.3%**	67.2%	

* Mainly represents the net profit attributable to owners of the parent excluding fair value gains on investment properties and certain tax effects, impairment of goodwill, etc..

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 2020 ("**1H FY2020/21**" or the "**Reporting 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 2020

		For the six months ended 30 September	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**7,106,901**	5,827,158
Cost of sales		**(4,404,229)**	(3,580,070)
Gross profit		**2,702,672**	2,247,088
Other income and (losses)/gains	*4*	**(88,382)**	172,276
Fair value gains on investment properties	*4*	**23,044**	278,361
Selling and distribution expenses		**(236,376)**	(323,881)
Administrative expenses		**(511,112)**	(555,651)
Other expenses		**(199,159)**	(94,383)
Finance costs	*5*	**(346,670)**	(302,333)
PROFIT BEFORE TAX	*6*	**1,344,017**	1,421,477
Income tax expenses	*7*	**(690,992)**	(791,236)
PROFIT FOR THE PERIOD		**653,025**	630,241
Attributable to:			
Owners of the parent		**653,542**	628,170
Non-controlling interests		**(517)**	2,071
		653,025	630,241
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic			
– For profit for the period		**HK8.08 cents**	HK7.75 cents
Diluted			
– For profit for the period		**HK8.08 cents**	HK7.75 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2020

	For the six months ended 30 September	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**653,025**	630,241
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,221,641**	(2,483,907)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**2,221,641**	(2,483,907)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**2,874,666**	(1,853,666)
Attributable to:		
Owners of the parent	**2,871,892**	(1,850,538)
Non-controlling interests	**2,774**	(3,128)
	2,874,666	(1,853,666)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Notes	30 September 2020 HK$'000 (Unaudited)	31 March 2020 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,376,729**	1,451,308
Investment properties		**53,050,601**	50,873,673
Right-of-use assets		**1,259,430**	1,424,217
Properties under development		**1,262,398**	1,120,379
Goodwill		**–**	34,128
Financial assets at fair value through profit or loss		**8,862**	8,524
Other long-term receivables		**372,799**	587,944
Deposits paid for purchase of land use rights		**30,983**	29,799
Deferred tax assets		**3,459,269**	3,550,178
Total non-current assets		**60,821,071**	59,080,150
CURRENT ASSETS			
Properties held for finance lease		**266,138**	259,431
Properties held for sale		**39,001,480**	40,065,384
Inventories		**95,200**	109,087
Trade receivables	*10*	**653,540**	560,891
Contract assets		**–**	161,830
Prepayments, other receivables and other assets		**3,532,657**	2,536,396
Financial assets at fair value through profit or loss		**301,970**	357,342
Cash and bank balances		**10,263,762**	10,303,541
Total current assets		**54,114,747**	54,353,902
CURRENT LIABILITIES			
Trade and other payables	*11*	**12,158,449**	15,589,798
Contract liabilities		**15,568,516**	15,578,700
Interest-bearing bank and other borrowings		**6,939,952**	8,200,428
Senior notes		**7,785,255**	5,356,119
Medium-term notes		**58,038**	55,820
Domestic company bonds		**1,259,938**	1,277,098
Financial liabilities at fair value through profit or loss		**55,887**	–
Tax payables		**4,340,012**	4,241,087
Total current liabilities		**48,166,047**	50,299,050
NET CURRENT ASSETS		**5,948,700**	4,054,852
TOTAL ASSETS LESS CURRENT LIABILITIES		**66,769,771**	63,135,002

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 September 2020

	30 September 2020 HK$'000 (Unaudited)	31 March 2020 HK$'000 (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**10,248,240**	8,920,685
Senior notes	**8,233,576**	8,963,385
Medium-term notes	**648,329**	651,847
Domestic company bonds	**341,400**	328,350
Other long term payables	**55,690**	122,732
Deferred tax liabilities	**9,748,795**	9,265,483
Total non-current liabilities	**29,276,030**	28,252,482
Net assets	**37,493,741**	34,882,520
EQUITY		
Equity attributable to owners of the parent		
Share capital	**7,222,312**	7,222,312
Other reserves	**30,258,206**	27,610,414
	37,480,518	34,832,726
Non-controlling interests	**13,223**	49,794
Total equity	**37,493,741**	34,882,520

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

1. BASIS OF PREPARATION AND OTHER INFORMATION

Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2020 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 2020.

Other Information

The financial information relating to the year ended 31 March 2020 that is included in the interim condensed consolidated financial statements for the six months ended 30 September 2020 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 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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.

2. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2020, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period financial information.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKFRS 16	*COVID-19-Related Rent Concessions (early adopted)*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The adoption of the above revised HKFRSs has had no significant financial effect on the Group's unaudited condensed consolidated interim financial information and there have been no significant changes to the accounting policies applied in the unaudited condensed consolidated interim financial information. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

	Property development *HK$'000* (Unaudited)	Property investment and management *HK$'000* (Unaudited)	Others *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Six months ended 30 September 2020				
Segment revenue:				
Sales to external customers	**5,783,395**	**748,688**	**574,818**	**7,106,901**
Segment results before increase in fair value of investment properties and impairment of goodwill	**1,977,160**	**498,933**	**291,661**	**2,767,754**
Increase in fair value of investment properties	**–**	**23,044**	**–**	**23,044**
Impairment of goodwill	**–**	**–**	**(34,128)**	**(34,128)**
Segment results after increase in fair value of investment properties and impairment of goodwill	**1,977,160**	**521,977**	**257,533**	**2,756,670**
Unallocated cost of sales				**(65,082)**
Interest income				**29,843**
Fair value losses on financial assets/liabilities at fair value through profit or loss, net				**(96,122)**
Unallocated income and gains				**35,402**
Unallocated expenses				**(970,024)**
Finance costs				**(346,670)**
Profit before tax				**1,344,017**
As at 30 September 2020				
Segment assets	**45,700,740**	**52,558,139**	**2,474,271**	**100,733,150**
Reconciliation:				
Unallocated assets				**14,202,668**
Total assets				**114,935,818**
Segment liabilities	**20,769,942**	**8,183,362**	**923,015**	**29,876,319**
Reconciliation:				
Unallocated liabilities				**47,565,758**
Total liabilities				**77,442,077**

3. OPERATING SEGMENT INFORMATION (CONTINUED)

During the six months ended 30 September 2020, the Group has changed the structure of its internal management in a manner that changes the compositions of its reportable segments mainly by combining property investment business and property management business. In addition, the E-commerce segment has been combined into the "others" segment, and the revenue from property leasing operation of furniture market has been transferred from the property investment segment to the "others" segment. As a result, the corresponding information for the six months ended 30 September 2019 has been restated.

	Property development *HK$'000* (Unaudited)	Property investment and management *HK$'000* (Unaudited) (Restated)	Others *HK$'000* (Unaudited) (Restated)	Total *HK$'000* (Unaudited)
Six months ended 30 September 2019				
Segment revenue:				
Sales to external customers	4,630,099	660,834	536,225	5,827,158
Segment results before increase in fair value of investment properties	1,723,175	481,086	173,523	2,377,784
Increase in fair value of investment properties	–	278,361	–	278,361
Segment results after increase in fair value of investment properties	1,723,175	759,447	173,523	2,656,145
Unallocated cost of sales				(130,696)
Interest income				82,693
Fair value losses on financial assets at fair value through profit or loss, net				(8,531)
Unallocated income and gains				98,114
Unallocated expenses				(973,915)
Finance costs				(302,333)
Profit before tax				1,421,477
As at 31 March 2020 (Audited)				
Segment assets	47,527,066	49,932,093	2,468,746	99,927,905
Reconciliation:				
Unallocated assets				13,506,147
Total assets				113,434,052
Segment liabilities	18,865,279	7,830,825	998,545	27,694,649
Reconciliation:				
Unallocated liabilities				50,856,883
Total liabilities				78,551,532

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

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 September	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue*		
Revenue from contracts with customers	**6,487,555**	5,267,163
Revenue from other sources		
Rental income	**413,417**	336,268
Finance lease income	**6,428**	26,345
Others	**199,501**	197,382
	7,106,901	5,827,158
Other income		
Interest income	**29,843**	82,693
Government grants**	**9,322**	30,113
Others	**16,141**	36,995
	55,306	149,801
(Losses)/gains		
Fair value losses on financial assets/liabilities at fair value through profit or loss, net	**(96,122)**	(8,531)
Loss on disposal of subsidiaries	**(57,505)**	(12)
(Losses)/gains on repurchase of asset-backed securities	**(9,111)**	19,510
Gain on repurchase of the senior notes	**20,062**	18,177
Exchange losses, net	**(1,012)**	(6,669)
	(143,688)	22,475
	(88,382)	172,276
Fair value gains on investment properties	**23,044**	278,361

* Included amounts of HK$223,050,000 (six months ended 30 September 2019: HK$201,303,000) related to income from outlet operations and HK$203,273,000 (six months ended 30 September 2019: HK$196,392,000) 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 grants.

5. FINANCE COST

An analysis of finance costs is as follows:

	For the six months ended 30 September	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings (including senior notes, medium-term notes, domestic company bonds and short-term notes)	**1,601,466**	1,339,904
Interest on lease liabilities	**3,295**	3,197
Less: Interest capitalised	**(1,258,091)**	(1,040,768)
Total	**346,670**	302,333

6. PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of properties sold	**3,803,046**	2,897,055
Cost of properties held for finance lease	**3,189**	9,869
Depreciation of property, plant and equipment	**66,923**	61,463
Less: Depreciation capitalised in respect of properties under development	**(241)**	(166)
	66,682	61,297
Depreciation of right-of-use assets	**47,227**	39,032
Lease payments not included in the measurement of lease liability	**4,167**	4,463
Impairment of trade receivables*	**106,602**	58,222
Equity-settled share option expense	**4,090**	1,006
Impairment of financial assets included in prepayments, other receivables and other assets and other long-term receivables*	**13,884**	–
Impairment of goodwill*	**34,128**	–

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

7. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 September 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 2019: 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 at the statutory rate of 25% (six months ended 30 September 2019: 25%) on their respective taxable income during the period. Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Group obtained the High and New Technology Enterprises qualification. Accordingly, it enjoyed a preferential income tax rate of 15% during the period (six months ended 30 September 2019: 15%).

The PRC land appreciation tax ("**LAT**") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land cost, borrowing costs and all property development expenditures.

	For the six months ended 30 September	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current:		
Mainland China corporate income tax	**181,020**	360,370
LAT in Mainland China	**154,213**	429,874
Deferred:		
Mainland China corporate income tax	**382,738**	93,580
LAT in Mainland China	**(38,553)**	(107,469)
Withholding tax on dividends	**11,574**	14,881
Total tax charged for the period	**690,992**	791,236

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

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

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 September 2020 and 2019 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	For the six months ended 30 September	
	2020	2019
	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	**653,542**	628,170

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and dilute earnings per share calculation	**8,091,892,848**	8,107,228,848

9. DIVIDENDS

The final dividend of HK3.0 cents per share amounting to HK$242,757,000 for financial year ended 31 March 2020 was approved on 22 September 2020, which was settled on 20 October 2020.

At a meeting of the Board held on 27 November 2020, the directors resolved not to pay an interim dividend to shareholders (six months ended 30 September 2019: Nil).

10. TRADE RECEIVABLES

Trade receivables represent sales income, rental receivables and service income receivables from customers which are payable on issuance of invoices or in accordance with the terms of the related sale and purchase agreements. The Group generally allows a credit period of not exceeding 60 days to its customers. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at 30 September 2020 and 31 March 2020 based on the payment due date, net of loss allowance, is as follows:

	30 September 2020	31 March 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**522,545**	277,152
Over 3 months	**130,995**	283,739
Total	**653,540**	560,891

11. TRADE AND OTHER PAYABLES

		30 September 2020	31 March 2020
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Audited)
Other payables and accruals		**3,487,780**	5,278,166
Notes payable	*(a)*	**1,464,222**	1,655,544
Advanced rental and other receipts		**4,066,481**	5,573,375
Due to non-controlling interests		**–**	156,471
Refund liabilities		**–**	654
Lease liabilities		**27,837**	48,921
Dividend payable		**242,757**	–
Construction fee and retention payables	*(b)*	**2,869,372**	2,876,667
Total		**12,158,449**	15,589,798

11. TRADE AND OTHER PAYABLES (CONTINUED)

(a) An aged analysis of the Group's notes payables presented based on the invoice date at the end of the reporting period is as follows:

	30 September 2020	31 March 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**383,369**	534,931
Over 3 months	**1,080,853**	1,120,613
Total	**1,464,222**	1,655,544

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

	30 September 2020	31 March 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 1 year	**2,308,586**	1,060,018
Over 1 year	**560,786**	1,816,649
Total	**2,869,372**	2,876,667

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

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "**Board**") of the Company together with its subsidiaries, I am pleased to report the unaudited consolidated interim results of the Group for the six months ended 30 September 2020 ("**1H FY2020/21**" or the "**Reporting Period**").

During the first half of the financial year, the effects of the pandemic lingered. Despite the full resumption of operation and gradual recovery of all business activities, both domestic and international economic situations were intricate, with the continuing trade tension between China and the US. Overall, opportunities and challenges coexisted. In the third quarter of 2020, China's GDP growth stood at 4.9% with a year-on-year growth of 0.7% for the first three quarters, bucking the trend to eke out economic growth. Driven by the macro environment, the overall operating results of China South City showed a trend of positive growth.

During 1H FY2020, while maintaining its dedication to COVID-19 prevention, China South City made great efforts to introduce new businesses and improve infrastructure development. In September 2020, AETM Supermarket (阿爾特麥超市), a large-scale complex with a gross floor area ("**GFA**") of over 50,000 sq.m., commenced operation in CSC Nanning, while Hong Hui Furniture Wholesale Plaza (鴻輝家具批發城) in CSC Zhengzhou was also officially opened in the same month. By sticking to its business motto of "Safety, Quality and Service", the Group has achieved remarkable results in cost reduction and efficiency enhancement.

During the Reporting Period, China's government strongly supported the real economy by aiding small-and medium-sized enterprises ("**SMEs**") through various ways, including tax reduction and loan interest discount. China South City benefited from a number of positive news. Following the opening of Shenzhen Subway line 10 in August 2020 with the CSC Station (華南城站) along the line, CSC Shenzhen is positioned to enjoy a much more prominent advantage in terms of transportation and location. In September 2020, according to the joint announcement made by the Ministry of Commerce and other six ministries, CSC Shenzhen was approved as the first "market procurement trade pilot unit (市場採購貿易試點單位)" in Shenzhen. Coupled with other positive factors such as the development of Wanda Plaza in the Shenzhen project, the commercial and trading business of China South City has been significantly boosted.

In addition, CSC Shenzhen also benefited from the "Plan on Implementing Comprehensive Pilot Reforms in Shenzhen to Build the City into a Demonstration Area of Socialism with Chinese Characteristics (深圳建設中國特色社會主義先行示範區綜合改革試點實施方案)". As this year marks the 40th anniversary of the establishment of Shenzhen Special Economic Zone, Shenzhen has been authorized to implement comprehensive pilot reforms under the top-level design of reform and strategic planning of the Central Government. As a local enterprise in Shenzhen, China South City is well positioned to embrace this important historic opportunity.

RESULTS AND DIVIDENDS

Facing challenges from the pandemic and the macro environment, China South City took the lead to achieve safe resumption of work. With the concerted dedication and commitment of all staff, the Company recorded steady growth in its operating results. During the Reporting Period, the contracted sales of the Group increased by 4.4% to HK$8,070.8 million (1H FY2019/20: HK$7,732.8 million); revenue rose by 22.0% to HK$7,106.9 million (1H FY2019/20: HK$5,827.2 million), with recurring income up by 10.6% to HK$1,323.5 million (1H FY2019/20: HK$1,197.1 million).

Net profit attributable to owners of the parent increased by 4.0% to HK$653.5 million (1H FY2019/20: HK$628.2 million), while 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, impairment of goodwill, etc.) increased by 46.4% to HK$734.7 million (1H FY2019/20: HK$501.7 million). Basic earnings per share increased to HK8.08 cents (1H FY2019/20: HK7.75 cents).

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2020 (1H FY2019/20: Nil).

REVIEW OF THE MARKET AND OPERATIONS

China South City has implemented professional operational management with great efforts. The strategic deployment of "Emphasizing Tenant Recruitment and Strengthening Operations" has achieved positive effects. Meanwhile, China South City made strenuous efforts to introduce and support the development of new businesses, so as to promote flourishing development of all business segments.

During the Reporting Period, the overall development of the real estate industry was affected by the pandemic and the macro environment. Later in the period, with precautious measures taken to contain the spread of the virus, the Company took the lead in realizing safe resumption of work and achieved significant improvement in its operating results. During the Reporting Period, the Company continued to record growth in contracted sales as compared with that of the corresponding period last year. In terms of management and team building, the investment development division has achieved remarkable results, with a number of projects completed for delivery. The division strived to create an overall healthy development environment by vigorously promoting refined management, improving whole-process dynamic cost management, implementing various measures to strengthen pre-activity cost control and building up a reserve of outstanding talents.

During the Reporting Period, the business management division continued to bring in quality industries and business tenants, which has laid a solid foundation for long-term development, and also made continuous efforts to enhance project management capability and core competitive strength. In particular, the business management division focused on promoting the development of various industry sectors, among which the live streaming base for internet celebrity e-commerce in CSC Shenzhen, CSC Zhengzhou and CSC Nanchang, the membership supermarkets in CSC Nanning, CSC Hefei and CSC Nanchang, the inexpensive quality home furnishing stores represented by Hong Hui Furniture in CSC Zhengzhou and the outlets operation in the eight CSC projects have become the four important growth engines. In addition, the Group boasts several distinctive business sectors such as education, automobiles and parts, healthcare and beauty and health food. The rapid development of some projects has created huge industrial cluster effect, such as the automobile and parts base in CSC Xi'an and the education base in CSC Hefei, which have gradually replaced the traditional industries and created new growth drivers.

Continue to Push Forward Transformation and Upgrade to Achieve Diversified Business Operation

As a leading developer and operator of large-scale integrated logistics and trade centers in China, the Group will keep abreast of market changes, remain committed to enhancing the management level of its existing businesses, push forward transformation and upgrade and continue to introduce new businesses, so as to lay a solid foundation for the long-term development.

In FY2020/21, China South City is focusing on consolidating resources of its existing businesses and exploring a diverse light-asset integrated management business, including commercial complexes management, project and property management, as well as outlet operation. Efforts have been made to enhance complementarity and synergy between the light-asset business and project operation and reduce costs, with an aim to project China South City onto a path of diverse and high-quality development.

With comprehensive improvement in the ancillary facilities, and in addition to our cooperation with Wanda Group established in the previous financial year, CSC Shenzhen brought in a number of strong brands such as Heungkong Group located in Guangzhou during the Reporting Period, further enhancing its reputation and influence. Shenzhen Huasheng Commercial Development Company Limited ("**Huasheng Outlet**"), a wholly-owned subsidiary of the Group, seized the favorable opportunity arising from the opening of the subway line to launch a sales promotion campaign, recording a noticeable increase in turnover during the Mid-Autumn Festival and National Day. Qianlong Logistics Group Limited ("**Qianlong Logistics**"), a wholly-owned subsidiary of the Group, has gradually completed the expansion from warehouse leasing to comprehensive third-party logistics services, and has secured a number of warehousing and distribution or transportation projects from renowned brands including China Top 500 and Fortune Global 500 enterprises. With good service quality and years of experience, it has been highly recognized by customers.

On the front of introduction of new businesses, while maintaining its leading position in the existing multi-industry trade centers, logistics and warehousing distribution, conference and exhibition, local amenities and comprehensive property management services, China

South City has been continuously exploring new businesses and nurtured new growth drivers. For example, CSC Nanchang has built an influencers live-streaming base with an area of approximately 30,000 sq.m., providing one-stop services covering from anchor training, operation management to film and television productions; CSC Nanning, CSC Hefei and CSC Nanchang have opened membership supermarkets; and CSC Hefei focuses on education and training, forming an industry cluster for science and education.

The introduction of new businesses has presented new opportunities for the development of China South City, improving the business ecosystem of the projects and bringing in huge volume of rental income and customer flow, which helped to promote the collaborative development of related industries.

Implement Sound Financial Management with Flexible and Smooth Financing Channels

The Group's sound financial management and healthy financial structure have been recognized by professional credit rating agencies and financial institutions. During the Reporting Period, the Group was upgraded from "B-" to "B" for its issuer credit rating by Standard & Poor's (an international credit rating agency) with a stable outlook, was assigned the issuer credit rating of "B2" by Moody's (an international credit rating agency) with a stable outlook, and was confirmed the issuer credit rating of "B" from Fitch (an international credit rating agency) with a stable outlook as well.

In financing, the Group continued to strengthen its established diversified and extensive financing channels. In the overseas market, the Group issued senior notes with a total principal amount of US$575 million during the Reporting Period, and repurchased and cancelled senior notes with a total principal amount of approximately US$167 million during the Reporting Period, serving as an active effort to optimize its debt structure. Domestically, the Group further strengthened its cooperation with commercial banks, and continued to obtain various types of credit lines from them to meet its financing and operational needs, effectively reducing financing costs and optimizing debt structure. Since the previous financial year, the Group has been committed to obtaining more long-term loans to extend its debt maturity profile. From the previous financial year up to the end of this Reporting Period, the Group has obtained a number of long-term (over five years) fixed-asset backed facilities totaling RMB6 billion from commercial banks, which provided a solid support for the Group's future development. Through effective application of facilities from domestic and overseas capital markets, bank loans and internal operating cash flows, the Group continued to maintain low liabilities during the Reporting Period with the gearing ratio maintaining at the level recorded at the beginning of the financial year, enabling the Group to ensure stable financial position in an uncertain economic environment. Looking into the second half of the year, the Group will continue with its prudent and sound financial management strategy as well as diversified, flexible and smooth financing channels, strive for better capital management, strike a balance between financial stability and business development, and thereby create maximum value for shareholders.

PROSPECTS

Looking ahead to the second half of this financial year, the complex macro environment may exert certain impact on the stable economic growth. However, under the main policy of "Stabilizing Land Prices, Housing Prices and Market Expectations" implemented by the government, the overall market will maintain stable and sound development.

The Group will remain prudent and optimistic, confront challenges proactively and strive to make progress while maintaining stability. The "Trade and Logistics +" model that China South City has adhered to for years will help the Group integrate resources in its advantageous environment, optimize capital operation, intensify cost control and give priority to efficiency. The Group will sustain its efforts to promote industrial upgrade and transformation and drive the improvement of its project ecosystem, so as to achieve the development goal of "Integrating Industries into Projects, Building Beautiful New Cities Conducive to Work and Life".

Last but not least, on behalf of the Board, I wish to express my deepest gratitude to our shareholders, customers and business partners for their consistent trust and support to the Group. I would also like to thank the management and members of staff for their dedication and wholehearted commitment, which have helped China South City grow from strength to strength.

Cheng Chung Hing
Chairman and Executive Director

Hong Kong, 27 November 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Strengthening Primary Businesses with Flourishing Development of New Industry Sectors

During 1H FY2020/2021, the international environment was intricate. Affected by the pandemic and trade friction, China's exports and overall economy were faced with challenges, and things started to improve after the second quarter with the economy bottoming out. In the third quarter of 2020, China's Gross Domestic Product (GDP) growth stood at 4.9%, bucking the trend to eke out an overall economic growth of 0.7% for the first three quarters. The implementation of a series of favorable policies such as the "Market Procurement Trade Pilot Program" (市場採購貿易試點) and the "Plan on Implementing Comprehensive Pilot Reforms in Shenzhen to Build the City into a Demonstration Area of Socialism with Chinese Characteristics" (深圳建設中國特色社會主義先行示範區綜合改革試點實施方案) presented excellent historic opportunities for the development of the Group's projects.

Facing the slowdown in economic growth and the ever-evolving domestic and international situation, the diversified and flexible business model of China South City has enabled timely and effective adjustments to sales and operations strategies according to different development stages of a project and the market demand in different regions. Leveraging its innovative and integrated trade and logistics model over the years, the Group will remain as a leading developer and operator of large-scale integrated logistics and trade center in China.

As the projects in various places are becoming mature, China South City has been actively adding new industries and businesses in respect of innovation and technology on these project sites, apart from strengthening the provision and services on residential units, multi-purpose commercial properties, office buildings, property management, conference and exhibition facilities, warehousing and logistics, outlet operations and financial services. For example, with the strategic cooperation agreement signed between CSC Shenzhen and Wanda Group, a new generation of Wanda Plaza will soon be presented in CSC Shenzhen. Following the opening of Shenzhen Subway line 10 in August 2020 with the CSC Station (華南城站) along the line, the commercial ancillaries in the surrounding area have been upgraded, which in turn attracted more customer flow. The opening of AETM Supermarket (a large-scale complex with a GFA of over 50,000 sq.m.) in CSC Nanning and Hong Hui Furniture Wholesale Plaza in CSC Zhengzhou in September 2020 significantly diversified the business portfolio of the CSC projects, attracting more customer flow and promoting the collaborative development of various industries. Currently, China South City has facilitated the flourishing development of new industry sectors comprising live streaming base for internet celebrity e-commerce, membership supermarkets, inexpensive quality home furnishing stores and outlets which have become the four growth engines while maintaining the stable development of its existing ones.

China South City is a leading developer and operator of large-scale integrated logistics and trade centers in China, having all along been pushing forward the transformation and upgrade of regional economies and new urbanization. With the eight CSC projects growing in maturity, in order to implement more professional and dedicated management in project development and merchant recruitment, the Group established its investment development division and business management division in FY2018/19. The investment development division conducts overall control on development progress and cost by continuously enhancing milestone management and operation team building to enable improvements in projects' operational efficiency, so as to better withstand market risks. During 1H FY2020/2021, the Group recorded an increase of approximately 4.4% in contracted sales compared to the same period of last year. The business management division works towards high quality development by introducing an increased number of large-scale established enterprises. During 1H FY2020/21, each of the Group's business operations maintained stable and positive growth. The recurring business growth sustained a stable and robust momentum, with recurring income increasing by 10.6% to HK$1,323.5 million compared to the same period of last year.

During 1H FY2020/21, the Group's total revenue increased by 22.0% to HK$7,106.9 million (1H FY2019/20: HK$5,827.2 million). Its recurring income grew by 10.6% year-on-year from HK$1,197.1 million in 1H FY2019/20 to HK$1,323.5 million in the Reporting Period, accounting for 18.6% of the total revenue (1H FY2019/20: 20.5%). Gross profit margin was 38% (1H FY2019/20: 39%). Net profit attributable to owners of the parent was HK$653.5 million (1H FY2019/20: HK$628.2 million). Basic earnings per share amounted to HK8.08 cents (1H FY2019/20: HK7.75 cents).

Investment Development Division

Project Investment and Development

The investment development division mainly focuses on the Group's project investment, development and construction, laying a solid foundation for subsequent merchant recruitment and project operation. To meet local demands of projects in different places, the Group has developed various types of commercial complexes accordingly. Multi-purpose commercial properties have been developed in various projects, such as Zhengzhou, Xi'an, Nanchang, and Shenzhen. Furthermore, government service centers and science and education industries have been introduced to certain projects. With respect to project construction, the investment development division keeps abreast of the latest development trend by continuously improving the construction standard, so as to elevate the construction quality of projects. For instance, the Zijingmingdu residential project of CSC Zhengzhou was listed in the first batch of "Model Construction Sites with Standardized Construction Quality in Henan Province (河南省建築工程質量標準化示範工地)" by the Department of Housing and Urban-Rural Development (住建廳) of Henan province. This project adopted the engineering general contracting model of "prefabricated construction + EPC", which was more environmentally-friendly with less carbon footprints and higher quality standard. During the Reporting Period, in terms of management and team building, the investment development division has achieved remarkable results, with a number of projects completed for delivery. The division strived to create an overall healthy development environment by vigorously promoting refined management, improving whole-process dynamic cost management, implementing various measures to strengthen pre-activity cost control and building up a reserve of outstanding talents.

CSC Shenzhen

CSC Shenzhen recorded a total completed GFA of approximately 2.39 million sq.m., and Phases I and II and part of Phase III of CSC Shenzhen's properties have commenced operation of their respective trade centers and ancillary facilities, including approximately 1.62 million sq.m. of trade centers, approximately 412,000 sq.m. of residential ancillaries and multi-purpose commercial properties and approximately 356,200 sq.m. of warehousing and other facilities.

CSC Nanchang

CSC Nanchang recorded a total completed GFA of approximately 2.40 million sq.m., including approximately 1.07 million sq.m. of trade centers, approximately 1.28 million sq.m. of residential ancillaries and approximately 44,300 sq.m. of warehousing facilities.

CSC Nanning

CSC Nanning recorded a total completed GFA of approximately 1.95 million sq.m., including approximately 896,600 sq.m. of trade centers, approximately 814,100 sq.m. of residential ancillaries, approximately 205,600 sq.m. of multi-purpose commercial properties and approximately 36,800 sq.m. of warehousing facilities. Construction of multi-purpose commercial properties with a GFA of approximately 154,800 sq.m. was underway.

CSC Xi'an

CSC Xi'an recorded a total completed GFA of approximately 1.88 million sq.m., including approximately 1.68 million sq.m. of trade centers, approximately 119,900 sq.m. of multi-purpose commercial properties, approximately 52,000 sq.m. of warehousing facilities and approximately 23,300 sq.m. of ancillary facilities.

CSC Harbin

CSC Harbin recorded a total completed GFA of approximately 1.98 million sq.m., including approximately 1.43 million sq.m. of trade centers, approximately 8,700 sq.m. of multi-purpose commercial properties, approximately 454,100 sq.m. of residential ancillaries, and approximately 81,600 sq.m. of logistics and warehousing and ancillary facilities.

CSC Zhengzhou

CSC Zhengzhou recorded a total completed GFA of approximately 3.70 million sq.m., including approximately 2.66 million sq.m. of trade centers, approximately 286,200 sq.m. of warehousing and ancillary facilities and approximately 751,500 sq.m. of residential ancillaries.

CSC Hefei

CSC Hefei recorded a total completed GFA of approximately 3.16 million sq.m., including approximately 1.59 million sq.m. of trade centers, approximately 1.50 million sq.m. of residential ancillaries and approximately 82,000 sq.m. of warehousing and ancillary facilities.

CSC Chongqing

CSC Chongqing recorded a total completed GFA of approximately 2.00 million sq.m., including approximately 1.26 million sq.m. of trade centers, approximately 519,300 sq.m. of residential ancillaries and approximately 217,100 sq.m. of warehousing and ancillary facilities.

Business Management Division

Consolidating Resources to Continuously Push Forward Transformation and Upgrade

China South City pays high attention to the overall operation of its projects. Apart from actively enriching the industries on project sites and promoting industry cluster, China South City has been providing or introducing a variety of ancillary facilities and services in response to the demands of its project management and expansion, so as to develop a comprehensive business portfolio. The business management division is principally engaged in tenants recruitment and operation management of the Group, providing professional operation and management services along the value chains of China South City's development, investment and financing. Its business covers trade centers, logistics zones, hotels, integrated commercial complexes, commercial blocks, neighborhood centers, residential ancillary, and multi-purpose commercial properties.

During the Reporting Period, the Group continued to implement the strategy of "Emphasizing on Merchants Recruitment and Strengthening Operation". The establishment of a professional business management division ensured more professional performance in project management and merchants recruitment and introduction of emerging and new targeted industries that are aligned with the upcoming development trend. In particular, the internet celebrity e-commerce bases in CSC Shenzhen, CSC Zhengzhou and CSC Nanchang, the membership supermarkets in CSC Nanning, CSC Hefei and CSC Nanchang, the inexpensive quality home furnishing stores represented by Hong Hui Furniture Wholesale Plaza in CSC Zhengzhou and the existing outlets operation have become the four growth engines for business development. In addition, the Group boasts several distinctive business sectors such as education, automobiles and parts, healthcare and beauty and health food. The rapid development of some projects has created huge industrial cluster effect, such as the automobile and parts specialized market in CSC Xi'an and the education base in CSC Hefei, which were strategically complementary to the Group's existing businesses.

During the Reporting Period, with the introduction of the "Plan on Implementing Comprehensive Pilot Reforms in Shenzhen to Build the City into a Demonstration Area of Socialism with Chinese Characteristics", the implementation of the Market Procurement Trade Pilot Program and the opening of the e-commerce demonstration base, China South City benefited from a variety of key strategic policies, which presented new historic opportunities for the development of its commercial and trade business. In addition, as Huawei offered Cloud services for on-site SMEs and facilitated the construction of smart industrial parks, coupled with the implementation of a series of favorable policies, China South City continued to introduce new technologies and push forward digital transformation, laying a solid foundation for the innovation and development of commercial and trade business.

Property Leasing and Property Management

The Group implemented a diversified property management model. As a leading developer and operator of large-scale integration logistics and trade centers in China, China South City has adapted to changes and has developed a diversified and flexible model for property management and ancillary services to ensure stable revenue sources and sustainable development in the future. Residential facilities, shopping malls, wholesale markets, as well as conference and exhibition, are developed to create synergy. Business is tuned and optimized according to local market demands.

After years of development, the property management segment has gained National First-Class Property Management Qualification. It was one of the few integrated property management firms capable of managing both trade center premises and residential properties in China. As the projects in various cities mature over time, the Group continuously seeks to add multiple streams of revenue to improve its operation, including advertising and exhibitions, pop-up space leasing and car parking. Meanwhile, the Group continued to strengthen digitalization on its project and property management through the application of mobile payment, online payment, electronic invoicing, smart device control, etc., with a view to providing higher usability while significantly reducing manpower costs but increasing efficiency.

During the Reporting Period, revenues generated from property leasing and property management amounted to HK$748.7 million (1H FY2019/20: HK$660.8 million), representing a year-on-year increase of 13.3%.

Logistics and Warehousing Services

Qianlong Logistics is an integrated modern logistics enterprise. As a professional operator of e-commerce, logistics and information industrial parks, it adopted the "Internet + Logistics Parks" operation mode to realize the integration of information and resources between transportation, warehousing, distribution and other logistics services providers and production, manufacturing, sales, e-commerce and other cargo owners across the country through the platform, and focused on the establishment of the integrated CSC logistics network. Built on the base of stable logistics park operation, Qianlong Logistics actively expanded its comprehensive third-party logistics services of warehousing and distribution. During the Reporting Period, Qianlong Logistics has enhanced its service level by upgrading to include high standard warehouses and planning to expand its business on cold chain warehousing.

During the Reporting Period, revenues generated from logistics and warehousing services amounted to HK$203.3 million (1H FY2019/20: HK$196.4 million), representing a year-on-year increase of 3.5%.

Outlet Operations

Huasheng Outlet, specialized in outlet development and operation, unceasingly enhances its commercial value through professional and effective management. During the Reporting Period, Huasheng Outlet launched various new activities and measures in operation, merchant recruitment, expansion and other aspects by making active efforts in innovation. In terms of operation, during the Reporting Period, Huasheng Outlet has carried out hundreds of activities with a significant increase in the overall sales. In terms of the marketing, influencers live-streaming and other innovative selling points were adopted, effectively increasing audience traffic and online business volume. In terms of tenant recruitment, Huasheng Outlet has established a comprehensive nationwide branding database and been in cooperation with more than one thousand strategic brand names. Through cost-saving, optimization of operation structure, and the change in tenancy mix and operation, a firm foundation is laid for future development.

During the Reporting Period, outlet operations recorded a turnover of HK$223.1 million (1H FY2019/20: HK$201.3 million), representing a year-on-year increase of 10.8%.

Exhibitions and Events

During the Reporting Period, the Group organized a number of large-scale exhibitions and events.

As this year marks the 18th anniversary of the establishment of the Group, an event under the theme of "Mutual Sharing and Benefit in CSC" was officially launched in May 2020, which provided an opportunity for our subsidiaries and business segments to share the development achievements of the Company with all business partners and customers, with aim to strengthen the reputation of the CSC brand. The event also boosted sales of various business segments through a wide variety of promotion campaigns, driving the flourishing development of all businesses and further laying a solid foundation for the development of the Company.

In September 2020, the Second Motorcycle Riders Festival took place in CSC Xi'an, which attracted the motorcycle suppliers based in the project and numerous motorcycle influencers and motorcycle riders across the country and provided a platform to promote motorcycle culture. The event lasted two days and attracted a large number of participants. The Motorcycle Riders Festival comprised brand motorcycle trade show, motorcycle road race, motorcycle stunt show, carnival festival and other activities, and boosted sales by organizing joint activities with merchants from related industries. The event demonstrated the efforts by CSC Xi'an in founding a distinctive industrial culture brand name.

Nanning & Southeast Asia International Tourism and Food Festival was successfully held in CSC Nanning from 1 October to 11 October 2020. The food festival demonstrated the Chinese traditional delicious food culture by combining the local distinctive delicacy of Guangxi Province and three major Chinese cuisines namely the Sichuan Cuisine, Hunan Cuisine and Cantonese Cuisine with Southeast Asian culture and cuisine, and established three function areas including cuisine, commodities as well as culture and tourism interaction. During the food festival, a variety of activities were also held, including Guangxi local ethnic distinctive cuisine competition, Russian theme experience, home living festival and various night market activities. The food festival has been held for around a couple of decades, and has become a famous tourism festival brand in Nanning and was named as one of "Top Ten Tourism Festival Brands in Guangxi", which has significantly enriched the life of local residents, and also improved the operating results of companies based in the city and strengthened the recognition and brand name of China South City.

In response to the outbreak of pandemic the year, a popular sports and health event was initiated concurrently by the Group in eight projects, i.e. the "CSC Run•888 (華跑•888)". Adopting the strategy of combining online and offline channels, the event launched a tailored clock-in mini program for exercise count PK contests, which offers a variety of games such as step count clocking-in through WeChat, visit and snapshot at popular internet destinations, leading sport city PK contest. While promoting the concept of sports and health, we integrated various consumption scenarios in different cities and tapped the marketing potential based on the CSC mini program by encouraging consumers to visit and spend in local CSC projects. The event was held in September 2020, which attracted a total of over 10,000 participants, further strengthening customer loyalty to our brand.

In addition, the Group also successfully organized many other events such as the Wine Carnival in CSC Shenzhen (深圳華南城美酒集市), the Home Shopping Festival in CSC Nanning (南寧華南城家居生活購物節) and the Third Autumn Home Building Materials Expo in CSC Nanchang (南昌華南城第三屆秋季家居建材博覽會), which attracted numerous participants and attention. The Group also continued to expand cooperation with various merchants based in the CSC projects, and made innovations to resource consolidation and event organization, with an aim to strengthen the cultural vitality of the CSC brand and promote the healthy development of the Company.

Land Bank

With its unique and flexible business model, the Group intends to retain properties such as logistics and warehousing facilities and hotels, as well as 50% of trade center units for self-use or long-term leasing purposes, in order to generate stable recurring income and capital appreciation, while the remaining approximately 50% of trade center units and all of the residential properties will be sold progressively to generate cash flow for the Group's development. The Group's current land bank is as follows, which is mainly for residential, warehousing and logistics, and commercial purposes.

(in sq.m.)	**Completed properties[1]** Sold	Saleable or in operation	**Properties under development**	**Properties to be completed in FY2020/21** Estimated	**Properties planned for future development on GFA acquired[2]** Estimated	**Total planned GFA[3]** Estimated	**Total planned GFA for acquired land (% to total planned GFA)[4]**	
CSC Shenzhen	863,000	1,529,300	185,500	–	66,200	2,644,000	2,644,000	100%
CSC Nanchang	1,406,600	994,300	710,700	–	1,682,800	6,866,000	4,794,400	70%
CSC Nanning	682,000	1,271,100	154,800	–	372,100	4,880,000	2,480,000	51%
CSC Xi'an	921,700	957,700	1,081,700	262,500	1,715,500	17,500,000	4,676,600	27%
CSC Harbin	701,600	1,274,100	881,400	61,400	2,860,100	12,000,000	5,717,200	48%
CSC Zhengzhou	1,840,300	1,862,400	1,992,200	1,091,700	4,497,300	12,000,000	10,192,200	85%
CSC Hefei	1,863,600	1,294,300	721,500	149,000	2,113,600	12,000,000	5,993,000	50%
CSC Chongqing	646,700	1,353,700	891,600	333,800	3,609,800	13,100,000	6,501,800	50%
Total	**8,925,500**	**10,536,900**	**6,619,400**	**1,898,400**	**16,917,400**	**80,990,000**	**42,999,200**	**53%**

Notes:

(1) Represents the GFA for which the construction of all various types of buildings had been completed, including properties held for sales, warehouses, multi-purpose commercial properties, hotels and trade centers held for rental purpose as well as self-use properties.

(2) Represents the remaining GFA after deducting the completed properties and properties under development from the total planned GFA for acquired land.

(3) Represents the planned GFA upon establishment of the projects. The actual land and GFA to be acquired or built are subject to different factors and may vary subsequently.

(4) Represents the planned GFA for the land acquired including completed properties, properties under development and properties planned for future development. The actual GFA may vary subsequently according to needs of the Group.

Financial Review

The main objective of the Group's financial management is to pursue long-term sustainable growth while maintaining financial health through a strong and stable capital base.

The Group proactively adjusts its business development strategies, the pace of land acquisition and other capital expenditures in concurrence with its cash flows from operating and financing activities, in order to maintain liquidity while uphold growth momentum.

The Group actively manages its financing structure through various financing channels, from onshore and offshore bank loans to different interbank and capital market instruments, in order to achieve an optimal capital structure and maturity profile. As at 30 September 2020, the total interest-bearing debts of the Group were HK$35.5 billion (31 March 2020: HK$33.8 billion), representing an increase of 5% compared to 31 March 2020. The gearing ratio was 67.3% (31 March 2020: 67.2%). Furthermore, as at 30 September 2020, cash and bank balances were HK$10,263.8 million (31 March 2020: HK$10,303.5 million) and the Group had unused banking facilities of approximately HK$17.2 billion.

For the Reporting Period, compared with the same period last year, the revenue of the Group increased by 22.0% to HK$7,106.9 million (1H FY2019/20: HK$5,827.2 million), and net profit attributable to owners of the parent increased by 4.0% to HK$653.5 million (1H FY2019/20: HK$628.2 million). Excluding the effects of fair value gains on investment properties and certain tax effects and profit or loss on purchase and redemption of senior notes, adjusted core net profit attributable to owners of the parent increased by 46.4% to HK$734.7 million (1H FY2019/20: HK$501.7 million). Basic earnings per share increased to HK8.08 cents (1H FY2019/20: HK7.75 cents).

Revenue

Revenue for the Reporting Period increased by 22.0% to HK$7,106.9 million (1H FY2019/20: HK$5,827.2 million) comparing with the same period last year. The increase was mainly attributable to more sales and delivery of properties during the Reporting Period and increase in the recurring income.

	For the six months ended 30 September		
	2020	2019	**Change**
	HK$'000	*HK$'000*	*%*
Sale of properties and finance lease income	**5,783,395**	4,630,099	24.9
Sales of properties	*5,776,967*	*4,603,754*	*25.5*
Finance lease income	*6,428*	*26,345*	*-75.6*
Recurring income	**1,323,506**	1,197,059	10.6
Property leasing and management service income	*748,688*	*660,834*	*13.3*
Other recurring revenue	*574,818*	*536,225*	*7.2*
	7,106,901	5,827,158	22.0

Sales of Properties and Finance Lease income

Revenue from sales of properties increased by 25.5% to HK$5,777.0 million (1H FY2019/20: HK$4,603.8 million). The increase was mainly attributable to more sales and delivery of properties in Hefei, Zhengzhou and Harbin projects during the Reporting Period.

Finance lease income derived from leasing of office buildings decreased by 75.6% to HK$6.4 million (1H FY2019/20: HK$26.3 million). The decrease was primarily attributable to less finance lease of office building at CSC Shenzhen made during the Reporting Period. During the Reporting Period, the Group entered into finance lease arrangements with tenants for approximately 500 sq.m. (1H FY2019/20: 1,800 sq.m.) at an average price of approximately HK$12,800/sq.m. (1H FY2019/20: HK$14,800/sq.m.).

Property Leasing and Management Service Income

The Group intends to retain approximately 50% of the trade center units for self-use or rental purposes. Meanwhile, the Group also provides property management services for its trade centers, shops and residential properties delivered and in use. Given the diversity of its property types and industries in China South City projects, the Group's business management division continued to provide diversified leasing and property management services, to cater to the needs of different property types and industries across respective projects during the Reporting Period. Property leasing and management service income will become an important component of the recurring income of the Group in the long run. CSC Shenzhen, being the more mature project in the Group's portfolio, contributed a substantial part of the property leasing and property management service income. During the Reporting Period, property leasing and property management service income of the Group increased by 13.3% to HK$748.7 million (1H FY2019/20: HK$660.8 million) compared with the same period last year.

Other Recurring Revenue

Other recurring revenue increased by 7.2% to HK$574.8 million (1H FY2019/20: HK$536.2 million). The revenue from outlet operations increased by 10.8% to HK$223.1 million (1H FY2019/20: HK$201.3 million). Meanwhile, revenue from logistics and warehousing services increased by 3.5% to HK$203.3 million (1H FY2019/20: HK$196.4 million) during the Reporting Period, which is mainly due to the increase in area of warehouse and the increase in the third party logistic service income. It is worth noting that HOBA Furnishing's adjustment to operation has resulted in a drop in revenue, which in turn affected the growth rate in the Group's income.

Cost of Sales

The Group's cost of sales mainly includes construction costs, borrowing costs and land costs of properties sold and properties sold under finance lease and operating costs of recurring business. During the Reporting Period, cost of sales increased by 23.0% to HK$4,404.2 million (1H FY2019/20: HK$3,580.1 million). The increase in cost of sales was in line with the increase of total recognised sales during the Reporting Period.

Gross Profit

Gross profit increased by 20.3% to HK$2,702.7 million (1H FY2019/20: HK$2,247.1 million). During the Reporting Period, gross profit margin slightly decreased to 38% (1H FY2019/20: 39%).

Other Income and (Losses)/Gains

During the Reporting Period, other income decreased by 63.1% to HK$55.3 million, mainly attributable to the decrease in government grants and interest income. In addition, during the Reporting Period, other gains turned from HK$22.5 million for the corresponding period of last year to other losses of HK$143.7 million, mainly attributable to the fair value losses on financial assets at fair value through profit or loss and losses on disposal of subsidiaries.

Fair Value Gains on Investment Properties

The fair value gains on investment properties decreased by 91.7% to HK$23.0 million (1H FY2019/20: HK$278.4 million).

For each of the interim and annual financial reporting date, the Group appoints an independent professional qualified valuer to determine the fair value of our investment properties. The change in fair value of our investment properties may be affected by a variety of internal and external factors, such as rental area, rental rate, market prices of comparable properties.

Based on our business model, the Group may have new additions of investment properties every year that generate fair value gains. The fair value gains/(losses) may fluctuate with time due to the change in the volume of investment properties, the change in market conditions and different construction phrases of our projects. Therefore, the amount of fair value gains/(losses) will also fluctuate accordingly.

Selling and Distribution Expenses

While maintaining a healthy revenue growth, the Group's selling and distribution expenses decreased by 27.0% to HK$236.4 million (1H FY2019/20: HK$323.9 million). The decrease was mainly attributable to the successful implementation of effective cost control measures over marketing activities on the sales of properties during the Reporting Period.

Administrative Expenses

Administrative expenses decreased by 8.02% to HK$511.1 million (1H FY2019/20: HK$555.7 million). The decrease was primarily due to actions taken by the Group to streamline human resources and the effective control of administrative costs.

Other Expenses

Other expenses increased by 111.0% to HK$199.2 million (1H FY2019/20: HK$94.38 million), mainly attributable to the impairment of trade receivables, goodwill and financial assets included in prepayments, other receivables and other assets and other long-term receivables.

Finance Costs

Finance costs remained stable at HK$346.7 million (1H FY2019/20: HK$302.3 million). Due to change in capital market conditions, the Group's weighted average financing cost increased to 8.33% at the end of September 2020 (31 March 2020: 7.85%).

Tax

Income tax expenses recorded a decrease of 12.7% to HK$691.0 million (1H FY2019/20: HK$791.2 million). The decrease in income tax expenses was mainly due to the decrease in profit before taxation for the Period.

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 types of bonds on the onshore and offshore market, which includes but not limited to senior notes, short-term notes, medium-term notes, corporate bonds and domestic company bonds. The Group will continue to explore different financing means and to extend its financing channels.

Cash and Bank Balances

As at 30 September 2020, the Group had HK$10,263.8 million cash and bank balances (31 March 2020: HK$10,303.5 million). The Group's cash and bank balances were primarily denominated in Renminbi, HK dollars and US dollars.

Borrowing and Charges on the Group's Assets

As at 30 September 2020, the total interest-bearing debts of the Group was HK$35,514.7 million (31 March 2020: HK$33,753.7 million). The details of borrowings and charges on the Group's Assets are set out below.

Interest-bearing bank and other borrowings

The Group had aggregated interest-bearing bank and other borrowings of HK$17,188.2 million as at 30 September 2020 (31 March 2020: HK$17,121.1 million), of which HK$6,940.0 million is repayable within one year or on demand, HK$3,854.5 million will be repayable in the second year, HK$2,140.8 million will be repayable in the third to fifth years and HK$4,252.9 million will be repayable after five years. As at 30 September 2020, the Group's interest-bearing bank and other borrowings of approximately HK$16,554.8 million were secured by certain buildings, investment properties, properties under development, properties held for finance lease, properties held for sales and bank deposits with a total carrying value of approximately HK$36,839.5 million.

All interest-bearing bank and other borrowings of the Group were denominated in Renminbi and US dollars with interest rates ranging from 3.85% to 12.00% (31 March 2020: 3.95% to 12.35%) per annum. Furthermore, as at 30 September 2020, the Group had unused banking facilities of approximately HK$17.2 billion. The Group will, depending on the need of project development and working capital status, utilize these banking facilities as appropriate.

Issuance of Notes

Senior Notes

During the Reporting Period, the Company issued (1) additional US$125 million 10.875% senior notes due 2022 in June 2020; (2) US$200 million 11.5% senior notes due 2021 in August 2020; and (3) US$250 million 10.75% senior notes due 2023 in September 2020.

During the Reporting Period, the Company repaid 10.875% senior notes due 2020 with a principal amount of US$201.1 million upon maturity in August 2020.

During the Reporting Period, the Company made on-market repurchase of (1) 6.75% senior notes due 2021 with a principal amount of US$8 million in June 2020; (2) 7.25% senior notes due 2022 with a principal amount of US$10 million in June 2020; (3) 7.25% senior notes due 2021 with an aggregate principal amount of US$100.906 million in May, June and September 2020; (4) 10.875% senior notes due 2020 with a principal amount of US$39.9 million in May 2020; and (5) 11.875% senior notes due 2021 with a principal amount of US$8.5 million in May 2020. The repurchased notes were cancelled accordingly.

Details of movement is set out below:

Issuance Date	May & Jun 2018 10.875% senior notes due 2020	Jan 2018 7.25% senior notes due 2021	Mar & Jun 2019 11.875% senior notes due 2021	Aug 2020 11.5% senior notes due 2021	Sep & Oct 2016 6.75% senior notes due 2021	Dec 2019 & Jan 2020 11.5% senior notes due 2022	Feb & Jun 2020 10.875% senior notes due 2022	Nov 2017 7.25% senior notes due 2022	Sep 2020 10.75% senior notes due 2023
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Issued nominal value	250,000	250,000	260,000	200,000	350,000	350,000	350,000	300,000	250,000
As at 1 April 2020	241,000	229,000	252,000	–	340,700	350,000	225,000	286,500	–
New issuance	–	–	–	200,000	–	–	125,000	–	250,000
Repayment upon maturity	(201,100)	–	–	–	–	–	–	–	–
Repurchase and cancellation	(39,900)	(100,906)	(8,500)	–	(8,000)	–	–	(10,000)	–
As at 30 September 2020	–	128,094	243,500	200,000	332,700	350,000	350,000	276,500	250,000

All of the notes above are listed and traded on the Singapore Stock Exchange.

As at 30 September 2020, the carrying value of senior notes were HK$16,018.8 million. The senior notes are jointly guaranteed by certain subsidiaries and part of the senior notes are secured by pledges of share of certain subsidiaries.

Medium-Term Notes

In April 2019, China South International Industrial Materials City (Shenzhen) Company Limited ("**China South International**") issued the first tranche of the medium-term notes of 2019 with a total principal amount of RMB600 million with a maximum maturity period of 3 years and at an interest rate of 8.5% per annum.

Domestic Company Bonds

In August 2019, China South International issued the first and second tranche of the domestic company bonds of 2019 with an aggregate principal amount of RMB1.4 billion with a maximum maturity period of 3 years and at an interest rate of 8% per annum.

As at 30 September 2020, the carrying values of China South International's medium-term notes were HK$706.4 million (31 March 2020: HK$707.7 million) and domestic company bonds were HK$1,601.3 million (31 March 2020: HK$1,605.4 million).

Gearing Ratio

The Group's gearing ratio (net debt divided by total equity) was 67.3% as at 30 September 2020, 67.2% as at 31 March 2020 and 68.7% as at 30 September 2019 respectively.

Net Current Assets and Current Ratio

As at 30 September 2020, the Group had net current assets of HK$5,948.7 million (31 March 2020: HK$4,054.9 million) at a current ratio of 1.12 (31 March 2020: 1.08).

Contingent Liabilities

The Group has provided guarantees mainly with respect to banking facilities granted by certain banks in connection with mortgage loans made by purchasers of the Group's trade centers and residential properties, and bank loans made 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 when the lessees repaid the loan. Further details to the above and other matters are set out in note 25 to the financial statements.

Commitments

As at 30 September 2020, the Group had future capital expenditure contracted but not yet provided for amounting to HK$14,510.8 million (31 March 2020: HK$13,221.6 million).

Acquisition and Disposal of Subsidiaries and Associated Companies

The Group had no material acquisitions and disposals of subsidiaries and associated companies during the Reporting 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. Other than the bank deposits, bank borrowings and senior notes denominated in foreign currency, the Group does not have any other material exposure to foreign exchange risk. During the Reporting Period, the Group entered into certain forward currency contracts with a bank to hedge an amount of approximately US$200 million against foreign exchange exposure. A contract with an amount of US$300 million had been expired during the Period.

The Group continues to adopt a proactive approach to closely monitor the foreign currency market and explore the domestic capital market for financing opportunities. Other hedging arrangements will be made if such need arises.

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 and selling prices of the properties, rental 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 business of 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 46 to the financial statements as set out in the Company's 2019/20 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 discuss to adjust the details of these agreements to align with the actual needs of developments.

The pace of the land acquisition and project development depends 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 warehousing 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 or commercial properties built by CSC Hefei and CSC Chongqing are limited to 50% of their relevant total buildable GFA. The saleable area of trade centers or commercial properties of phase I and future phases of CSC Zhengzhou are limited to 60% and 50% respectively of its relevant total buildable GFA. 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.

Human Resources

As at 30 September 2020, the Group had a workforce of approximately 4,050 people, decreased by approximately 14.38% from approximately 4,730 people as at 31 March 2020. 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the applicable code provisions of 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**"), save and except for the following deviation:

Code provision A.6.7 provides that independent non-executive Directors and other non-executive Directors are equal board members, and should attend general meetings of the Company. During the Reporting Period, one independent non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 22 September 2020 as he had other prior business engagement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of the 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 2020.

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 and Mr. Hui Chiu Chung. 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 2020 have been reviewed by the Audit Committee and Ernst & Young, the Company's independent auditor, 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 Reporting Period, the Company and a subsidiary of the Company repurchased part of the senior notes with an aggregated principal amount of US$167.306 million from the open market. Details are set out in the section headed "Senior Notes".

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 27 November 2020

As at the date of this announcement, the Executive Directors of the Company are Mr. Cheng Chung Hing, Mr. Zhao Lidong, Mr. Wu Guangquan and Ms. Cheng Ka Man Carman; the Non-Executive Directors of the Company are Mr. Cheng Tai Po and Mr. Lin Ching Hua; and the Independent Non-Executive Directors of the Company are Mr. Leung Kwan Yuen Andrew, GBM, GBS, JP, Mr. Li Wai Keung and Mr. Hui Chiu Chung, JP.

This announcement contains operating statistics for the Reporting 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.