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 2017

FINANCIAL HIGHLIGHTS

	For the six months ended 30 September		
	2017	2016	**Approximate**
	HK$'000	*HK$'000*	**Change %**
	(Unaudited)	(Unaudited)	
Contracted Sales	**5,449,837**	4,315,612	**26.3**
Revenue	**3,620,370**	2,892,799	**25.2**
Among which, Recurring income	**920,475**	736,486	**25.0**
Gross profit margin	**41%**	43%	
Profit attributable to owners of the parent	**990,544**	856,883	**15.6**
Core net profit attributable to owners of the parent*	**331,909**	258,587	**28.4**
Earnings per share – Basic	**HK12.37 cents**	HK10.70 cents	**15.6**

* 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 2017 ("**1H FY2017/18**" 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 2017

		For the six months ended 30 September	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**3,620,370**	2,892,799
Cost of sales		**(2,134,828)**	(1,650,249)
Gross profit		**1,485,542**	1,242,550
Other income and gains/(losses)	*4*	**249,958**	684,177
Fair value gains on investment properties	*4*	**1,066,390**	963,134
Selling and distribution expenses		**(307,413)**	(395,537)
Administrative expenses		**(518,297)**	(563,131)
Other expenses		**(121,440)**	(85,095)
Finance costs	*5*	**(118,120)**	(109,855)
PROFIT BEFORE TAX	*6*	**1,736,620**	1,736,243
Income tax expenses	*7*	**(752,292)**	(882,144)
PROFIT FOR THE PERIOD		**984,328**	854,099
Attributable to:			
Owners of the parent		**990,544**	856,883
Non-controlling interests		**(6,216)**	(2,784)
		984,328	854,099
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic			
– For profit for the period		**HK12.37 cents**	HK10.70 cents
Diluted			
– For profit for the period		**HK12.37 cents**	HK10.70 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2017

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**984,328**	854,099
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,256,350**	(971,392)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**1,256,350**	(971,392)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**2,240,678**	(117,293)
Attributable to:		
Owners of the parent	**2,241,843**	(107,311)
Non-controlling interests	**(1,165)**	(9,982)
	2,240,678	(117,293)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2017

	Notes	30 September 2017 HK$'000 (Unaudited)	31 March 2017 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,696,473**	1,454,909
Investment properties		**45,748,090**	42,191,542
Properties under development		**5,220,953**	4,493,810
Prepaid land lease payments		**1,296,443**	1,146,108
Goodwill		**34,128**	34,128
Investments in associates		**94,642**	82,497
Available-for-sale investments		**175,512**	175,512
Other long-term receivables		**12,025**	5,926
Deposits paid for purchase of land use rights		**15,860**	15,235
Deferred tax assets		**2,756,146**	2,289,999
Total non-current assets		**57,050,272**	51,889,666
CURRENT ASSETS			
Properties held for finance lease		**403,827**	305,240
Properties held for sale		**28,842,740**	23,847,433
Inventories		**180,186**	137,555
Trade receivables	*10*	**1,314,655**	1,238,228
Prepayments, deposits and other receivables		**1,377,020**	1,066,802
Held-for-trading investments at fair value through profit or loss		**31,729**	–
Cash and cash equivalents and restricted cash		**9,285,213**	10,490,909
Total current assets		**41,435,370**	37,086,167
CURRENT LIABILITIES			
Trade and other payables	*11*	**21,472,274**	16,763,218
Interest-bearing bank and other borrowings		**8,810,695**	7,042,625
Short-term notes		**1,174,000**	1,353,240
Medium-term notes		**2,377,176**	–
Tax payables		**4,241,258**	4,442,096
Total current liabilities		**38,075,403**	29,601,179
NET CURRENT ASSETS		**3,359,967**	7,484,988
TOTAL ASSETS LESS CURRENT LIABILITIES		**60,410,239**	59,374,654

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)
As at 30 September 2017

	30 September 2017 *HK$'000* **(Unaudited)**	31 March 2017 *HK$'000* (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**8,424,180**	6,369,837
Senior notes	**4,968,130**	6,425,992
Medium-term notes	**2,373,164**	4,723,000
Corporate bonds	**1,792,497**	1,778,744
Domestic company bonds	**5,342,559**	5,079,429
Deferred tax liabilities	**7,167,108**	6,518,261
Total non-current liabilities	**30,067,638**	30,895,263
Net assets	**30,342,601**	28,479,391
EQUITY		
Equity attributable to owners of the parent		
Share capital	**7,054,362**	7,054,362
Other reserves	**23,114,521**	21,243,892
	30,168,883	28,298,254
Non-controlling interests	**173,718**	181,137
Total equity	**30,342,601**	28,479,391

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

1. BASIS OF PREPARATION AND OTHER INFORMATION

Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2017 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 2017.

Other Information

The financial information relating to the year ended 31 March 2017 that is included in the interim condensed consolidated financial statements for the six months ended 30 September 2017 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 is as follows:

The Company has delivered the financial statements for the year ended 31 March 2017 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. 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 2017, except for the adoption of the revised standards as of 1 April 2017, noted below.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements 2014–2016 Cycle*	*Disclosure of Interests in Other Entities*

The adoption of the above amendments has had no material effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements.

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 2017						
Segment revenue:						
Sales to external customers	2,699,895	361,484	247,121	85,395	226,475	3,620,370
Intersegment sales	–	71,322	44,063	66,199	15,480	197,064
	2,699,895	432,806	291,184	151,594	241,955	3,817,434
Elimination of intersegment sales						(197,064)
Revenue						3,620,370
Segment results before increase in fair value of investment properties	1,168,351	233,874	(28,865)	84,569	157,653	1,615,582
Increase in fair value of investment properties	–	1,066,390	–	–	–	1,066,390
Segment results after increase in fair value of investment properties	1,168,351	1,300,264	(28,865)	84,569	157,653	2,681,972
Unallocated cost of sales						(130,040)
Interest income						31,215
Gain on held-for-trading investments at fair value through profit or loss, net						2,023
Unallocated income and gains						216,720
Unallocated expenses						(947,150)
Finance costs						(118,120)
Profit before tax						1,736,620
As at 30 September 2017						
Segment assets	38,903,092	46,069,098	94,358	76,145	1,896,436	87,039,129
Reconciliation:						
Investments in associates						94,642
Unallocated assets						11,351,871
Total assets						98,485,642
Segment liabilities	16,724,920	6,679,444	105,267	304,447	501,602	24,315,680
Reconciliation:						
Unallocated liabilities						43,827,361
Total liabilities						68,143,041

	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 and gains						638,542
Unallocated expenses						(1,043,763)
Finance costs						(109,855)
Profit before tax						1,736,243
As at 31 March 2017 (Audited)						
Segment assets	31,976,084	43,001,921	71,402	80,726	1,479,843	76,609,976
Reconciliation:						
Investments in associates						82,497
Unallocated assets						12,283,360
Total assets						88,975,833
Segment liabilities	10,158,100	4,945,321	68,785	310,860	382,242	15,865,308
Reconciliation:						
Unallocated liabilities						44,631,134
Total liabilities						60,496,442

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

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of properties	**2,688,395**	2,097,193
Finance lease income	**11,500**	59,120
Rental income	**361,484**	353,457
Property management service income	**247,121**	153,168
E-commerce income	**85,395**	63,438
Other revenue*	**226,475**	166,423
	3,620,370	2,892,799
Other income		
Interest income	**31,215**	41,800
Government grants**	**240,554**	740,909
Others	**11,420**	16,262
	283,189	798,971
Gains/(losses)		
Gain on held-for-trading investments at fair value through profit or loss, net	**2,023**	3,835
Loss on redemption of the 2012 Notes	**–**	(87,049)
Loss on redemption of the 2014 Notes	**(89,876)**	–
Gain on purchase of the 2014 Notes	**–**	597
Exchange gains/(losses), net	**54,622**	(32,177)
	(33,231)	(114,794)
	249,958	684,177
Fair value gains on investment properties	**1,066,390**	963,134

* Other revenue includes amounts of HK$130,630,000 (six months ended 30 September 2016: HK$83,243,000) related to income from outlet operations and HK$86,105,000 (six months ended 30 September 2016: HK$74,894,000) 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	
	2017	2016
	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)	**1,141,892**	1,185,115
Less: Interest capitalised	**(1,023,772)**	(1,075,260)
Total	**118,120**	109,855

6. PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of properties sold	**1,527,767**	1,121,504
Cost of properties held for finance lease	**3,776**	15,455
Depreciation	**61,242**	62,673
Less: Depreciation capitalised in respect of properties under development	**(673)**	(841)
	60,569	61,832
Amortisation of prepaid land lease payments	**11,120**	9,451
Gain on disposal of subsidiaries	**(1,117)**	–
Provision for impairment of trade receivables*	**74,846**	46,240
Write off of trade receivables*	**27,889**	20,064
Equity-settled share option expense	**27,886**	18,283

* 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 2016: 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 the sale of properties less deductible expenditures including land cost, borrowing costs and all property development expenditures.

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current:		
Mainland China corporate income tax	**521,709**	163,068
LAT in Mainland China	**223,039**	447,469
Deferred:		
Mainland China corporate income tax	**52,930**	372,832
LAT in Mainland China	**(55,760)**	(111,867)
Withholding tax on dividends	**10,374**	10,642
Total tax charged for the period	**752,292**	882,144

8. DIVIDENDS

At a meeting of the Board held on 30 November 2017, the directors resolved not to pay an interim dividend to shareholders (six months ended 30 September 2016: 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	
	2017	2016
	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	**990,544**	856,883

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**8,006,321,999**	8,006,092,491
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,130,802**	2,794,804
	8,009,452,801	8,008,887,295

10. TARDE 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. 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 which is based on the payment due date as at the end of the reporting period, net of provision, is as follows:

	30 September 2017 HK$'000 (Unaudited)	31 March 2017 HK$'000 (Audited)
Within 1 month	**759,821**	799,741
1 to 2 months	**63,481**	36,535
2 to 3 months	**55,060**	38,633
Over 3 months	**436,293**	363,319
Total	**1,314,655**	1,238,228

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

	Notes	30 September 2017 HK$'000 (Unaudited)	31 March 2017 HK$'000 (Audited)
Other payables and accruals		**3,189,537**	2,069,844
Notes payables	*(i)*	**682,283**	604,917
Deposits and receipts in advance		**11,775,096**	8,099,540
Construction fee and retention payables	*(ii)*	**5,825,358**	5,988,917
Total		**21,472,274**	16,763,218

(i) 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 2017 HK$'000 (Unaudited)	31 March 2017 HK$'000 (Audited)
1 to 3 months	**97,677**	50,264
Over 3 months	**584,606**	554,653
Total	**682,283**	604,917

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

	30 September 2017 HK$'000 (Unaudited)	31 March 2017 HK$'000 (Audited)
Within 1 year	**5,423,697**	5,595,795
Over 1 year	**401,661**	393,122
Total	**5,825,358**	5,988,917

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 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 2017.

Results and Dividend

China's economy continued its firm growth in the first three quarters in 2017 under the implementation of supply-side structural reforms, with gross domestic product ("**GDP**") expanding 6.9% year-on-year, above the central government's annual target of 6.5%. Driven by domestic infrastructure spending and a recovery in exports, China's manufacturing sector posted solid growth during the Period. China's manufacturing Purchasing Manager's Index ("**PMI**") stood at 52.4% in September 2017, reached its new high since May 2012 and marked the fourteenth-straight month of expansion of the manufacturing sector.

On the back of a better-than-expected economic environment and the gradual maturing of its projects, China South City strategically increased the proportion of sales from its residential ancillary and accelerated the provision of its various ancillary services for the tenants of its integrated logistics and trade centers with a view to gradually unlocking the intrinsic value hidden behind the investment it made throughout the previous years. During the Period, the Group achieved a notable contracted sales growth of 26.3% to HK$5,449.8 million (1H FY2016/17: HK$4,315.6 million), while revenue increased by 25.2% to HK$3,620.4 million (1H FY2016/17: HK$2,892.8 million), out of which recurring revenue grew by 25.0% to reach HK$920.5 million (1H FY2016/17: HK$736.5 million).

The Group's net profit attributable to owners of the parent increased by 15.6% to HK$990.5 million (1H FY2016/17: HK$856.9 million), while its 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) increased by 28.4% to HK$331.9 million (1H FY2016/17: HK$258.6 million). Basic earnings per share increased to HK12.37 cents (1H FY2016/17: HK10.70 cents).

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2017 (1H FY2016/17: Nil).

Review of the Market and Operations

Unique Business Model Begins to Bear Fruit

China South City has a diversified and flexible business model with a portfolio of projects occupying a strategic footprint in major provincial capitals and municipality in China. Tenants are spread over multiple industries and the Group is able to tactically adjust its sales mix according to the stage of development of the project and market demand in different localities. This allows the Group to smooth-out income streams and mitigates the impacts of cyclical fluctuations in order to ensure long-term business sustainability. The successful replication of the Group's projects across geographies continues to demonstrate the merits of this business model.

After years of solid development, the Group has entered into a new stage of growth. As one of the leading developers and operators of large-scale integrated logistics and trade centers in China, the Group has made significant investment in its core business at the early stage of development including land acquisition and construction of the integrated logistics and trade centers.

With more projects maturing and opening, the demand for residential ancillary and property management services is rapidly growing. Capitalizing on its prudent yet flexible business model, the Group has strategically ramped up the development and sales of residential projects, which generate a good cash inflow from the contracted sales.

Consistent Recurring Income Growth

As its existing projects continued to scale up and mature, the Group continued to draw on the strength of its diversified and flexible business model and ramp up the development of its five key recurring businesses, namely rental business, property management, E-commerce, logistics and warehousing services, as well as outlet operations. The Group recorded satisfactory growth in its total recurring income to HK$920.5 million (1H FY2016/17: HK$736.5 million) during the Period, representing an increase of 25.0%. Revenue generated from rental, property management, E-commerce, logistics and warehousing services and outlet operations reached HK$361.5 million, HK$247.1 million, HK$85.4 million, HK$86.1 million and HK$130.6 million respectively (1H FY2016/17: HK$353.5 million, HK$153.2 million, HK$63.4 million, HK$74.9 million and HK$83.2 million respectively).

During the Period, the Group's leasable area underwent a steady growth as more projects gradually commenced operations. The Group further scaled up its operations in its existing projects and diversified its tenant mix through introducing new tenants from new-economy industries, such as eSports. The operating performance of the Group has been further enhanced, with the rental income and property management fee steadily increased by 20.1% to HK$608.6 million.

Outlet operations generated great recurring income for the Group during the Period and remained as one of its revenue drivers. After years of development, the Group has established a reputable brand for its outlet business and has become the preferred outlet partner to many brands. Through establishing a long-term strategic cooperation with renowned brands, the Group further scaled up its outlet business and achieved encouraging results during the Period with new stores opened in China South City Hefei ("**CSC Hefei**") and China South City Chongqing ("**CSC Chongqing**").

"Internet Plus" remains a core strategy of China South City's fourth-generation integrated logistics and trading platform. As part of our online-offline initiative, the Group uses E-commerce not only to improve the business of the tenants of its projects, but also to induce online B2B businesses to open physical stores in the Group's projects. Capitalizing on the Group's extensive tenant base and strong offline trade center operating capability, a new online B2B industrial metal hardware procurement and trading platform is expected to be launched in the second half of FY2017/18.

On the back of China's rapid development of E-commerce, the Group utilized its abundant land bank to step up the development of logistics and warehousing business. It continued to uplift its competitiveness through strategically upgrading its logistics and warehousing facilities to ensure the quality of services. In addition, the Group is planning to expand its operations by offering customized warehouses to leading third-party logistics and E-commerce companies to enhance tenant structure and improve rental level.

Proactive Financial and Cash Management

After years of endeavor, the Group has established extensive and diversified financing channels, including both onshore and offshore, to finance its gradual expansion while maintaining a stable and healthy financial position. Besides traditional banking facilities, the Group consistently pursues a financial strategy by diversifying its funding channels with various onshore and offshore capital and inter-bank market instruments in order to optimize its capital structure and debt maturity profile. In addition, the Group proactively adjusts its business development strategies, the pace of land acquisition and other capital expenditure in concurrence with its cash flow in order to preserve liquidity as well as to keep its growth momentum. The goal is to maximizing shareholder value in the long run by building a strong and stable capital base to sustain its future business development. As at 30 September 2017, gearing ratio was about 85.6% while maintaining a relatively high cash and cash equivalents as well as restricted cash level, which amounted to HK$9,285.2 million. The Group will continue to adopt a proactive financial management strategy and endeavor to achieve better cash management to balance business development with financial stability, thereby creating the maximum value for its shareholders.

PROSPECTS

China's determination to deepen its structural reforms has increased the momentum and vitality of its economic and social development. With the Chinese Government sketching out the blueprint at the 19th National Congress of the Communist Party of China ("**19th National Congress**") to deepen the supply-side reforms with an emphasis on the manufacturing sector and industrial upgrades, it is expected that the related measures will boost the demand for the Group's fourth-generation integrated logistics and trade centers.

Looking ahead to the second half of the fiscal year, the Group will continue to adopt a prudent yet cautiously optimistic approach to ensure stable and sustainable growth. As the Group is gradually entering into a new phase of its development, it will strategically allocate more resources to residential ancillary expansion. While trade centers are the backbone of the Group's business, the Group will step up its efforts to optimize the operation of existing trade centers and recurring businesses as its projects continue to scale up and mature. Also, the increasing traffic brought by the residential properties nearby is expected to further drive business performance of the trade centers and other ancillary facilities.

In the coming year, the Group will continue to strike a balance between sustainable business development and efficient financial management. The management expects the Group to achieve an annual sales target of HK$10 billion to HK$12 billion for the fiscal year ended 31 March 2018 ("**FY2017/18**"). As at 30 September 2017, the Group had achieved HK$5,449.8 million in Contracted Sales. In relation to recurring business, as the new projects have progressively entered into operation phase and new residential projects are being gradually delivered, the Group will strive to keep its growth momentum and develop more diverse and stable revenue streams.

Finally, on behalf of the Board, I wish to express my deepest gratitude to the Group's valued shareholders, customers and business partners for their trust and continued support for the Group. I would also like to thank the management and staff for their dedication and wholehearted commitment, which have helped to make China South City grow from strength to strength.

Cheng Chung Hing
Chairman & Executive Director

Hong Kong, 30 November 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Business Model Overview

China South City has a diversified portfolio of projects occupying a strategic footprint in eight provincial capitals and municipality in China. The Group aims to provide modern, integrated operating platforms with ancillary services to facilitate the business development of small and medium-sized enterprises ("**SMEs**"), through utilizing both online and offline channels, in order to provide a comfortable and affordable environment for its tenants to work, live and entertain in the same locality where they work.

Due to the scale of the Group's project, project development usually spans long economic cycles. Different projects at different stages of development tailor different industries and services according to the needs of local market. While the trade centers and logistics and warehousing are usually the first to be developed in a project, demand for residential housing steps up once the trade centers have gradually opened up and become more mature and accessible. Upon which, the Group develops residential facilities to meet the demand in the projects. The Group may tactically adjust its sales mix between residential properties and trade centers according to the stage of project development and local demand. The Group selectively retains a portion of its developments, including trade centers, commercial and other ancillary facilities, as investment properties to generate stable and long term revenue stream.

Contributions from outlets operations, E-commerce, trade fairs and exhibitions, as well as the property management and logistics and warehouse services business will gradually increases in accordance with the increasing activities in and around the projects. These multiple and stable recurring income streams contribute to the long term business sustainability by mitigating the impacts of cyclical fluctuations in the trade center and property markets, which in turn contribute to the long term development of China South City.

Healthy Growth in Contracted Sales and Recurring Income

The business of China South City has further improved under the backdrop of a improving economy. In order to adapt to the economic new normal, the Chinese Government endeavored to deepen supply-side structural reform by encouraging industrial upgrades and accelerating the development of high-end manufacturing, internet technology and middle and high level consumption to support the real economy. The key economic indicators of the first three quarters – GDP, PMI, import and export growth – also pointed to solid progress in China's economic development and industrial upgrades.

In light of the gradually maturing of China South City projects and the favorable economic development, demand for residential ancillaries continued to be favorable during the Period. Taking advantages on this trend, the Group strategically accelerated the development and sales of residential facilities and stepped up the provision of ancillary services during the Period to cater for the rapidly growing demand from its customers. While the Group generated more revenue from the sales of residential properties in the Period, trade centers are still the backbone of the Group's business. In response to the change in the market, efforts have been made to reposition certain portion of the Group's properties development portfolio to improve sales and attract new tenants. This is reflected by the healthy growth in contract sales and recurring income during the Period. With the increase in leasable GFA and GFA under management, the Group also saw its recurring income growing satisfactorily, mainly driven by the growth in rental income, property management and outlet operations.

The growth in all segments of recurring income reflected an increase in business activities in the projects of the Group. As more and more projects have commenced operations and become accessible, the Group saw increasing demand for its ancillary facilities and services by the occupants and its employees within China South City projects.

During the Period, the Group's total revenue increased by 25.2% to HK$3,620.4 million (1H FY2016/17: HK$2,892.8 million). Its recurring income grew by 25.0% year-on-year from HK$736.5 million in 1H FY2016/17 to HK$920.5 million, accounting for 25.4% of the total revenue (1H FY2016/17: 25.5%). Gross profit margin was 41% (1H FY2016/17: 43%). Net profit attributable to owners of the parent was HK$990.5 million (1H FY2016/17: HK$856.9 million). Basic earnings per share amounted to HK12.37 cents (1H FY2016/17: HK10.70 cents).

Outlet Operations

In the third quarter of 2017, China reported a 6.9% growth in GDP. Greater disposable income and urbanization in China have emerged as dominant economic growth drivers and brought about changes in consumer behavior. Under this environment, outlet business offering discounted branded products with quality shopping experience and after-sale services has become more popular and achieved rapid growth in recent years.

Despite the competition from E-commerce, outlet business generated strong recurring income for China South City during the Period. The outlet business continuously delivers value-for-money branded products and high-quality shopping experiences to customers. On the back of the well-established project portfolio and improved accessibility, the outlet business continued to record sustained growth and supported the Group's projects by driving a steady visitor flow.

Over the years, the Company has demonstrated a proven track record in its outlet operations and successively achieved satisfactory results. As at 30 September 2017, the Group operated 9 outlet malls mainly in its existing projects. During the Period, the sub-outlet chain – ATLANTIS were expanded to Shenzhen, Nanchang, Nanning, Harbin and Chongqing. As at 30 September 2017, the Group's outlets business (including ATLANTIS) housed over 700 renowned domestic and international brands and occupied a total operating GFA of approximately 393,000 sq. m..

During the Period, the Group's outlet operation recorded a gross mall sales turnover of approximately RMB610.2 million (1H FY2016/17: RMB414.7 million, represented a year-on-year increase of approximately 47.1%) and generated a recurring income of HK$130.6 million (1H FY2016/17: HK$83.2 million, represented a year-on-year increase of approximately 56.9%). In terms of sales turnover, China South City Shenzhen ("**CSC Shenzhen**") remained the largest contributor, followed by China South City Xi'an ("**CSC Xi'an**").

E-commerce Development

China remains the country with the most internet users, demonstrating the importance of implementing the "Internet Plus" strategy to strengthen and upgrade the country's economy and industry. At China's recently concluded 19th National Congress, General Secretary Xi Jinping proposed to speed up the country's transformation into a strong and advanced manufacturing country. China will push for a deeper integration of the Internet, Big Data, Artificial Intelligence with the real economy. As "Internet Plus" remains a core strategy of China South City's fourth generation integrated logistics and trading platform, the Group is set to harness the opportunities arising from the related policies.

A key initiative of our Group is to develop its online-offline ecosystem, which leverages E-commerce to improve its tenants' businesses while providing brick-and-mortar space for online businesses to expand their offline presence in our integrated logistics and trade centers.

A new online B2B industrial metal hardware procurement and trading platform is currently being developed. The initial product will be focused on industrial metal hardware products. This business will provide an online B2B industrial metal hardware procurement and trade service to enterprise clients by working closely with quality suppliers within the China South City's ecosystem.

Logistics & Warehousing Services

The provision of integrated logistics and warehousing services differentiates the Group's integrated logistics and trade centers from the traditional wholesale markets. The Group's logistics and warehouse facilities, strategically located in major provincial capitals and municipality, are well connected to key domestic logistics nodes. The growing maturity of the Group's projects, coupled with China's E-commerce boom, has created a strong demand for its warehousing facilities and logistics services from projects' tenants as well as E-commerce companies and third party logistics providers. In order to cope with the increasing demand in quality warehousing facilities, the Group has commenced to ramp up and upgrade its logistics and warehousing facilities and services in selective locations with an aim to improve tenant mix and further expand the business. During the Period, this segment's revenue increased by 15.0% to HK$86.1 million.

The Group has also brought in a new dedicated team to further develop its logistics and warehousing business. Capitalizing on the geographical advantages of its existing projects, the Group strived to upgrade the standard of warehousing services and expand the range of services in order to attract and cater to higher end customers. The Group is planning to provide warehouse and inventory management services to some of its strategic customers in order to deepen its service offerings and strengthened customer loyalty.

Rental Incomes and Property Management

The progressive increase in rental and property management income is a reflection of the gradual ramp up of operation brought about by the gradual opening of new projects and maturity of the existing projects.

With the increasing GFA of China South City projects sold and rented, the Group's rental and property management income achieved a satisfactory growth and reached HK$608.6 million in 1H FY2017/18, up 20.1% year-on-year. As more projects commence operation, the Group believes recurring revenue generated from rentals and property management will continue to increase, generating stable cash inflows for the Group.

All of the Group's projects are managed by its wholly-owned subsidiary, Shenzhen First Asia Pacific Management Company Limited ("**First Asia Pacific**") and its corporate partners. First Asia Pacific is one of the very few property management companies that are capable of managing both trade and logistic centers as well as residential properties. The Group intends to position First Asia Pacific as one of the leading property management companies in the future and has embarked on a new plan to gradually lifting its servicing standards and facilities which may include using mobile applications with a range of property management functions.

HOBA Furnishing

The Group owns a 75% stake of Shenzhen HOBA Home Furnishing Chain Store Co., Ltd. ("**HOBA Furnishing**"). HOBA is principally engages in the operation of furnishing centers in the PRC, supplying middle-to-high-end quality home furnishing products and accessories. It's shares were quoted on the National Equities Exchange and Quotations System (also known as the "**New Third Board**") in China.

During the Period, due to factors like tenancy expiry, government demolition and business condition, four stores of HOBA Furnishing were closed. As at 30 September 2017, HOBA Furnishing operated six stores in China, this resulted in perceptible drop in revenue of HOBA Furnishing when compared year-on-year, which also affected the growth rate of the Group's rental income. For the brand's long term development, the Group is repositioning the HOBA brand and plans to introduce online-offline initiatives for furnishing business and explore cooperation opportunities with some leading online E-commerce platforms.

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 municipality 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 visitors 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.

Events at a Glance

ITFCEWC cum the Silk Road International Expo

The 21st Investment & Trade Forum for Cooperation between East & West China ("**ITFCEWC**") cum 2017 Silk Road International Expo were held in Xi'an in June 2017. The five-day event included the exhibition of electronic machinery & hardware products in the five northwestern provinces, International Food Festival, Silk Road Culture and Arts Festival, etc.. During the event, the "Silk Road Commodity Trade fair" was hosted by CSC Xi'an to exhibit quality goods from silk road countries and regions. Leveraging its convention and exhibition facilities and easily accessible logistic network, CSC Xi'an not only integrated the resources of countries along the Silk Road but also promoted full cooperation, driving trade and logistics development in Xi'an.

China-Russia Expo and Harbin International Economic and Trade Fair

The 4th China-Russia Expo and The 28th Harbin International Economic and Trade Fair – China South City Sub-venue kicked off in China South City Harbin ("**CSC Harbin**") in June 2017. Harbin International Economic and Trade Fair was become 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 and received great attention from governments at all levels. Enterprises and institutions from both domestic and overseas participated actively in the exhibition, which bought tremendous visitors and business opportunities to CSC Harbin, and enhance the status of CSC Harbin in Northeast Asia Economic Zone.

China-ASEAN Expo and Light Industrial Exhibition

The 14th China-ASEAN Expo, co-hosted by Ministry of Commerce of the PRC and the Economic and Trade Departments of ten ASEAN counterparts and the China-ASEAN Expo Secretariat took place in Nanning in September 2017. The four-day event attracted exhibitors from 68 countries and regions and heavy visitor flow. During the event, China-ASEAN Expo and Light Industrial Exhibition was hosted by China South City Nanning ("**CSC Nanning**") for the 8th consecutive year, 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

The main objective of the Group's financial management is to maximize shareholders' value in the long run by building a strong and stable capital base to sustain the Group's future business development. To achieve this, the Group actively manages its financing structure through different onshore and offshore bank loans as well as inter-bank and capital market instruments in order to achieve an optimal capital structure and maturity profile. During the Period, the Group's gearing ratio has moderately increased to 85.6% from 78.2% as at the end of last fiscal year, while when compared with same period of last fiscal year, it dropped slightly from 88.1%. The increase was due mainly to a moderate increase of debt for, amongst others, land bank acquisition in strategic locations for the sustainability of its long term growth. The Group will continue to maintain a sound credit profile amongst investors and banks, maintain the flexibility of multi-channels financing sources from both onshore and offshore banking and financing products as well as ample liquidity. As at 30 September 2017, the Group's cash and cash equivalents and restricted cash amounted to HK$9,285.2 million.

During the Period, the Group proactively adjusted its business development strategies, the pace of land acquisition and other capital expenditure in concurrence with its cash flows from operating and financing activities, in order to preserve liquidity as well as to keep its growth momentum. Cost control has shown satisfactory result with further decline in both selling and distribution expenses as well as administrative expense to an aggregate of HK$825.7 million (1H FY2016/17: HK$958.7 million), representing 22.8% of revenue (1H FY2016/17: 33.1%) through various cost control measures, rationalization programs and merging of certain departments to increase management efficiency.

Land Bank

The Group's strategy is executed through a unique business model, under which it intends to retain part of its commercial properties, such as logistic and warehousing facilities and offices. The Group retains at least half of its trade center units for self-use or long-term rental purposes, while disposing the remaining half of its trade center units and residential properties based on its cash flow needs for further development.

With a view to reserve for the long-term prospects as well as the broadening of its revenue base, the Group will from time to time acquire new plots of land in areas strategically important to the Group. During the Period, the Group acquired new plots of land in CSC Hefei and CSC Chongqing. The aggregated site areas were approximately 764,700 sq.m., of which approximately 180,800 sq.m. is expected to be built for commercial use, approximately 365,700 sq.m. is expected to be built for residential use and approximately 218,200 sq.m. is expected to be built for logistics and warehouse facilities. The enlarged land bank helps to drive the Group's sustainable future growth.

Details of the land bank as of 30 September 2017 are as follows:

Project	Completed Properties[1]		Properties under Development	Properties to be Completed by FY2017/18	Properties Planned for Future Development on GFA Acquired[2]	Total Planned GFA[3]	Total Planned GFA for Acquired land[4] (% to Total Planned GFA)	
(sq. m.)	*Sold*	*Unsold*		*Estimated*	*Estimated*	*Estimated*		%
CSC Shenzhen	809,800	1,582,500	185,000	–	66,700	2,644,000	2,644,000	100%
CSC Nanchang	1,165,000	835,000	400,800	400,800	2,229,900	7,297,000	4,630,700	63%
CSC Nanning	570,700	1,054,800	324,200	324,200	530,300	4,880,000	2,480,000	51%
CSC Xi'an	698,600	867,000	228,500	228,500	2,882,500	17,500,000	4,676,600	27%
CSC Harbin	473,600	1,053,600	546,200	301,500	2,666,000	12,000,000	4,739,400	39%
CSC Zhengzhou	1,127,600	1,513,500	2,033,300	310,000	4,008,300	12,000,000	8,682,700	72%
CSC Hefei	980,100	666,700	1,570,400	486,100	2,775,800	12,000,000	5,993,000	50%
CSC Chongqing	235,000	1,203,600	385,200	–	4,608,600	12,430,000	6,432,400	52%
Total	**6,060,400**	**8,776,700**	**5,673,600**	**2,051,100**	**19,768,100**	**80,751,000**	**40,278,800**	**50%**

Notes:

(1) Represents the GFA for which the construction of all constituent buildings had been completed, including properties held for sales, warehouse and trade centers properties 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 GFA planned 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 and properties under development. The actual GFA to be built may vary subsequently according to needs of the Group.

China South City Shenzhen

CSC Shenzhen, the Group's first project, is strategically located at the heart of the Guangdong-Hong Kong-Macao Big Bay Area 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 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 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 operations cover industries such as textile & clothing, leather & accessories, electronic parts, printing, paper products & packaging, hotel supplies, tea & teaware, cross-border products, E-commerce, metals and chemicals, plastics materials, outlets and home furnishing, etc.

As at 30 September 2017, 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. As at 30 September 2017, construction of GFA of approximately 185,000 sq. m. is underway.

In 1H FY2017/18, CSC Shenzhen recorded no Contracted Sales (1H FY2016/17: HK$632.4 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, and a GFA of 51,000 sq. m. of office units at an ASP of HK$12,200/sq. m.).

China South City Nanchang

China South City Nanchang ("**CSC Nanchang**") is located at the transportation hub for Yangtze River Delta and the Pearl River Delta Economic Zone. Situated in Honggutan New District of Nanchang, 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. 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 daily-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 building & decoration materials, small commodities, textile & clothing, leather & accessories, healthy & green products and outlets, 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 2017, CSC Nanchang has a total GFA of approximately 2.0 million sq. m. completed, including approximately 1.07 million sq. m. of trade centers, approximately 882,100 sq. m. of residential ancillary and approximately 44,300 sq. m. of warehousing facilities. During the Period, construction of a GFA of approximately 135,300 sq. m. of residential ancillary facilities was completed. As at 30 September 2017, construction of a GFA of approximately 400,800 sq. m. is underway and expected to be completed in FY2017/18.

In 1H FY2017/18, CSC Nanchang recorded total Contracted Sales of HK$810.7 million (1H FY2016/17: HK$1,977.8 million), including a GFA of 1,100 sq.m. of trade center units (detached style) at an ASP of HK$8,100/sq.m. (1H FY2016/17: 14,000 sq. m. at an ASP of HK$8,900/sq. m.) and a GFA of 93,900 sq. m. of residential ancillary at an ASP of HK$8,500/ sq. m. (1H FY2016/17: 209,500 sq. m. at an ASP of HK$8,800/sq. m.). Nil in trade center units (mall style) (1H FY2016/17: Nil) were sold during the Period.

China South City Nanning

CSC Nanning is located at 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. According to the City Railway Transportation Network of Nanning City (2020) (Revised) announced by Bureau of Planning and Management of Nanning City, it is in principle approved that subway line 4 will be extended and passing through CSC Nanning, and hence CSC Nanning will be more accessible to downtown and be connected to Longgang Business District in Nanning. 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 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.. CSC Nanning was conferred as “China-ASEAN Plaza” in 2011, aiming to forge a regional trade and logistics hub. CSC Nanning was awarded as “National AAA Class Tourist Attraction” as well. The project is under trial operations and it covers industries such as textile & clothing, small commodities, ASEAN products, home furnishing, tea & teaware, E-commerce, integrated foodstuff, automobile, eSports, logistics and outlets, etc. Through organizing a series of exhibitions, such as the China-ASEAN Expo and Light Industrial Exhibition, International Automobile Exhibition and Spring Tea Festival, traffic flow to the project as well as regional brand recognition of the project were enhanced. As the Group’s nationwide project network maturing, together with further improvement of the ancillary facilities and services, CSC Nanning also proactively adopted measures to enrich tenant mix. During the Period, CSC Nanning also brings out the first urban complex project – 1668 Square. This project involves Vienna Hotel, Chengsheng Baihui Supermarket, China Film Jiabo Cineplex in order to satisfy area residents demand on entertainment, leisure and shopping, increasing CSC Nanning’s overall comprehensive business attributes. Meanwhile, CSC Nanning continued to provide micro-credit services for SMEs in the project, providing them with financial support for their business development.

The construction of CSC Nanning is still underway and has a total GFA of approximately 1.63 million sq. m. completed, including approximately 896,600 sq. m. of trade centers, approximately 692,100 sq. m. of residential ancillary and approximately 36,800 sq. m. of warehousing facilities. During the Period, construction of a GFA of approximately 71,400 sq. m. of residential ancillary facility was completed. As at 30 September 2017, construction of a GFA of approximately 324,200 sq. m. is underway and expected to be completed in FY2017/18.

In 1H FY2017/18, CSC Nanning recorded total Contracted Sales of HK$425.8 million (1H FY2016/17: HK$474.7 million), including a GFA of 900 sq. m. of trade center units (mall style) at an ASP of HK$9,000/sq. m. (1H FY2016/17: 300 sq. m. at an ASP of HK$19,300/sq. m.), a GFA of 49,000 sq. m. of residential ancillary at an ASP of HK$8,400/sq. m. (1H FY2016/17: 69,100 sq. m. at an ASP of HK$6,700/sq. m.), and a GFA of 700 sq. m. of office units at an ASP of HK$9,700/sq. m. (1H FY2016/17: 500 sq. m. of office units at an ASP of HK$9,900/sq. m).

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, aiming 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 "Belt and Road" initiative. Xi'an International Trade and Logistics Park was brought into and classified as one of the three largest area of the China (Shaanxi) Pilot Free Trade Zone, which will further promote the economic development of the park. 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 which opens to 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 operations from 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. This subway line and the new stadium will generate more business opportunities and visitor traffic for the Xi'an International Trade and Logistics Park, and further enhance the value of CSC Xi'an.

The operations of CSC Xi'an cover industries such as machinery & hardware, textile & clothing, leather & fur, automobile & parts, building & decoration materials, advertising signs, cross border E-commerce, Central Asia & ASEAN product exhibition center and outlets, 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 "Belt and 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 currently under construction with a total GFA of approximately 1.57 million sq. m. completed, including approximately 1.49 million sq. m. of trade centers, approximately 55,800 sq. m. of warehousing facilities and approximately 23,300 sq. m. of ancillary facilities. As at 30 September 2017, construction of a GFA of approximately 228,500 sq. m. is underway and expected to be completed in FY2017/18.

In 1H FY2017/18, CSC Xi'an recorded total Contracted Sales of HK$327.6 million (1H FY2016/17: HK$162.3 million), including a GFA of 52,500 sq. m. of trade center units (detached style) at an ASP of HK$6,200/sq. m. (1H FY2016/17: 25,600 sq. m. at an ASP of HK$6,200/sq. m.). Nil in trade center units (mall style) (1H FY2016/17: 300 sq. m. at an ASP of HK$15,900/sq. m.) was sold during the Period.

China South City Harbin

Located at the Daowai District of Harbin, the capital of Heilongjiang Province, CSC Harbin fully utilises its advantageous location in Northeast China, a premier hub for cross-border trade with countries in Northeastern Asian. Its proximity to the China-Russia border helps to facilitate economic activities within the region. Leveraging the opportunities arising from the area's development potential, CSC Harbin endeavors to become the largest integrated logistics and trade center in Northeast China.

Leveraging its own geographical location and local industries advantages, CSC Harbin actively promotes regional economic and trade development. During the Period, CSC Harbin intensified the co-operation with Russia Khabarovsk City and other merchants, and integrated Heilongjiang Province green food resources, actively building as the core hub for Northeast Asia green food exhibition and trade. Currently, the planned operations of CSC Harbin's cover industries such as green food, hardware & construction materials, small commodities, hotel supplies, automobile and parts, agricultural industry, leather & fur and outlets, etc.

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.. CSC Harbin is currently under construction and has a total GFA of approximately 1.53 million sq. m. completed, including approximately 1.13 million sq. m. of trade centers, approximately 317,700 sq. m. of residential ancillary, approximately 59,200 sq. m. of logistics and warehousing facilities and approximately 22,500 sq. m. of ancillary facilities. During the Period, construction of a GFA of approximately 358,000 sq. m. of trade centers was completed. As at 30 September 2017, construction of GFA of approximately 546,200 sq. m. is underway, of which approximately 301,500 sq. m. are expected to be completed in FY2017/18.

In 1H FY2017/18, CSC Harbin recorded total Contracted Sales of HK$88.9 million (1H FY2016/17: HK$54.1 million), including a GFA of 1,700 sq. m. of trade center units (detached style) at an ASP of HK$8,300/sq. m. (1H FY2016/17: 1,500 sq. m. at an ASP of HK$8,900/sq. m.) and a GFA of 16,900 sq. m. of residential ancillary at an ASP of HK$4,400/sq. m. (1H FY2016/17: 8,000 sq. m. at an ASP of HK$4,700/sq. m.). Nil in trade center units (mall style) (1H FY2016/17: 300 sq. m. at an ASP of HK$11,300/sq. m.) were sold during the Period.

China South City Zhengzhou

China South City Zhengzhou ("**CSC Zhengzhou**") is located at the Airport Economy Zone ("**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 the Beijing-Guangzhou Railway Freight Station and the Beijing-Hong Kong-Macao Highway. The south 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 officially. Also, the East 3rd Ring South Station of Zhengzhou Ring Expressway which is close to CSC Zhengzhou has been in service. These added lines will generate more 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., CSC Zhengzhou continued to expand the logistics and warehousing facilities to meet the local demands. In addition, the outlet mall in CSC Zhengzhou had commenced operation and is expected to enrich the business diversity of the project. During the period, CSC Zhengzhou started to sell residential ancillary and the sales were satisfactory. The operations of CSC Zhengzhou cover industries such as building & decoration materials, small commodities, machinery & hardware, automobile & parts, non-staple food, clothing, E-commerce and outlets, etc.

CSC Zhengzhou is currently under development and has a total GFA of approximately 2.64 million sq. m. completed, including approximately 2.35 million sq. m. of trade centers, approximately 264,100 sq. m. of warehousing facilities and approximately 22,100 sq. m. of ancillary facilities. As at 30 September 2017, construction of a GFA of approximately 2.03 million sq. m. is underway, of which approximately 310,000 sq. m. are expected to be completed in FY2017/18.

In 1H FY2017/18, CSC Zhengzhou recorded total Contracted Sales of HK$997.7 million (1H FY2016/17: HK$56.2 million), including a GFA of 7,400 sq. m. of trade center units (mall style) at an ASP of HK$12,000/sq.m. (1H FY2016/17: 1,700 sq. m. at an ASP of HK$12,600/ sq. m.), a GFA of 90,900 sq. m. of residential ancillary at an ASP of HK$9,700/sq.m. (1H FY2016/17: Nil) and a GFA of 3,200 sq. m. of trade center units (detached style) at an ASP of HK$7,900/sq. m. (1H FY2016/17: 4,400 sq. m. at an ASP of HK$7,900/sq. m.).

China South City Hefei

CSC Hefei is located at 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.

During the Period, coping with the market demand, CSC Hefei strategically increased the land bank and speeded up the development of ancillary facilities, among which the residential ancillary has been met with strong demands, contributing to a significant increase in the contracted sales. Outlets successfully commenced its trial operation and the first batch of logistics and storage facilities have also been put into use. Currently, the planned operations of CSC Hefei cover industries such as automobile & parts, hardware, building & decoration materials, textile & clothing, outlets, small commodities, and non-staple food, etc.

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.. CSC Hefei is currently under construction and has a total GFA of approximately 1.65 million sq. m. completed, including approximately 1.30 million sq. m. of trade centers, approximately 328,200 sq. m. of residential ancillary and approximately 20,800 sq. m. of ancillary facilities. During the Period, construction of a GFA of approximately 160,900 sq. m. of trade centers and residential ancillary were completed. As at 30 September 2017, construction of a GFA of approximately 1.57 million sq. m. is underway, of which approximately 486,100 sq. m. are expected to be completed in FY2017/18.

In 1H FY2017/18, CSC Hefei recorded total Contracted Sales of HK$2,038.7 million (1H FY2016/17: HK$859.2 million), including a GFA of 1,100 sq. m. of trade center units (detached style) at an ASP of HK$10,400/sq. m. (1H FY2016/17: Nil) and a GFA of 218,000 sq. m. of residential ancillary at an ASP of HK$9,300/sq. m. (1H FY2016/17: 132,600 sq. m. at an ASP of HK$6,500/sq. m.).

China South City 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 to the city center and other regions given its strategic location in the Chongqing Highway Logistics Base, the state-level transportation infrastructure and large highway base in the western region. The transportation network around the project has been developed rapidly, coupled with the growing maturity of business circles in Banan district laying a good foundation for the future transportation convenience and business environment of the project. With the announcement by the Chongqing government of the establishment of a southern new town which located at the heart of CSC Chongqing, the Group envisages CSC Chongqing will has a promising potential for future development and appreciation. The planned operations of CSC Chongqing cover industries such as small commodities, hotel supplies, hardware & machinery, non-staple food & tea, building & decoration materials, textiles & clothing, automobile & parts, outlets and cultural tourism, etc. In addition, the outlet town commenced trial operation in September 2017, initially forming the fashion brand discount center in southern Chongqing.

CSC Chongqing has a total planned net land area of approximately 5.6 million sq. m. and a total planned GFA of approximately 12.4 million sq. m.. CSC Chongqing is currently under construction and has a total GFA of approximately 1.44 million sq. m. completed, including approximately 1.26 million sq. m. of trade centers, approximately 34,000 sq. m. of ancillary facilities and approximately 145,600 sq. m. of warehouse facilities. As at 30 September 2017, construction of GFA of approximately 385,200 sq. m. is underway.

In 1H FY2017/18, CSC Chongqing recorded total Contracted Sales of HK$760.4 million (1H FY2016/17: HK$98.9 million), including a GFA of 104,800 sq. m. of residential ancillary at an ASP of HK$6,600/sq. m. (1H FY2016/17: Nil) and a GFA of 7,800 sq. m. of trade center units (detached style) at an ASP of HK$8,500/sq. m. (1H FY2016/17: 12,400 sq. m. at an ASP of HK$8,000/sq. m.).

Financial Review

For the Period, when compared with the same period of last year, the Group reported an increase in revenue of 25.2% to HK$3,620.4 million (1H FY2016/17: HK$2,892.8 million), and net profit attributable to owners of the parent increased by 15.6% to HK$990.5 million (1H FY2016/17: HK$856.9 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 28.4% to HK$331.9 million (1H FY2016/17: HK$258.6 million). Basic earnings per share increased to HK12.37 cents (1H FY2016/17: HK10.70 cents).

Revenue

Revenue for the Period increased by 25.2% to HK$3,620.4 million (1H FY2016/17: HK$2,892.8 million) when compared to the same period of last year. The increase during the Period was mainly attributable to more properties sold and delivered in CSC Nanchang and CSC Nanning and growing recurring income.

	For the six months ended 30 September		
	2017	2016	Change
	HK$'000	*HK$'000*	*%*
Sales of properties and finance lease income	**2,699,895**	2,156,313	25.2
Sales of trade center units	***760,375***	*1,209,415*	*-37.1*
Sales of residential properties	***1,928,020***	*887,778*	*117.2*
Finance lease income	***11,500***	*59,120*	*-80.5*
Recurring income	**920,475**	736,486	25.0
Rental income	***361,484***	*353,457*	*2.3*
Property management service income	***247,121***	*153,168*	*61.3*
E-commerce income	***85,395***	*63,438*	*34.6*
Other revenue	***226,475***	*166,423*	*36.1*
	3,620,370	2,892,799	25.2

Sales of Properties and Finance Lease income

Revenue from sales of properties increased by 28.2% to HK$2,688.4 million (1H FY2016/17: HK$2,097.2 million). The increase during the Period was mainly attributable to the sales and delivery of properties in CSC Nanchang and CSC Nanning. 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	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
CSC Shenzhen	**–**	31,000	**–**	300	**–**	8.8	**–**	8.4
CSC Nanchang								
– Trade center units	**8,400**	9,000	**300**	82,800	**2.4**	777.7	**2.3**	736.0
– Residential properties	**9,200**	9,000	**126,600**	20,600	**1,169.1**	179.4	**1,106.7**	169.7
CSC Nanning								
– Trade center units	**8,800**	18,000	**1,000**	300	**9.7**	5.8	**9.6**	5.6
– Residential properties	**7,800**	7,000	**92,600**	14,100	**724.3**	93.5	**702.1**	88.3
CSC Xi'an	**5,500**	8,000	**27,700**	10,800	**152.9**	91.5	**151.9**	86.6
CSC Harbin								
– Trade center units	**7,900**	11,000	**30,500**	1,800	**242.2**	20.0	**234.2**	18.0
– Residential properties	**5,000**	5,000	**23,800**	74,900	**120.0**	353.2	**119.2**	334.5
CSC Zhengzhou	**10,200**	11,000	**28,600**	22,700	**291.3**	248.0	**285.8**	235.0
CSC Hefei								
– Trade center units	**11,800**	8,000	**1,400**	4,400	**16.4**	35.6	**16.3**	34.0
– Residential properties	**–**	6,000	**–**	51,200	**–**	312.2	**–**	295.3
CSC Chongqing	**8,400**	8,000	**7,500**	11,600	**62.6**	90.7	**60.3**	85.8
Total	**N/A**	N/A	**340,000**	295,500	**2,790.9**	2,216.4	**2,688.4**	2,097.2

* *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 towers decreased by 80.5% to HK$11.5 million (1H FY2016/17: HK$59.1 million). The decrease was primarily attributable to lower inventory level of office towers at CSC Shenzhen.

During the Period, the Group entered into finance lease arrangements with tenants for approximately 800 sq. m. (1H FY2016/17: 5,600 sq. m.) at an average price of HK$15,500/sq. m. (1H FY2016/17: HK$11,100/sq. m.).

Rental Income

The Group intends to retain not less than 50% of the trade center units for self-use or rental purposes. Therefore, rental income will continue to be an important component of the recurring income. CSC Shenzhen, being the Group's most matured project in its portfolio, contributed substantial part of the rental income. As at 30 September 2017, the total occupancy rate of the launched rentable GFA of different phases of CSC Shenzhen's trade centers and shops were approximately 80% to 97% (1H FY2016/17: 71% to 93%). Along with the gradual extension of operations in other projects, these projects, start to contribute rental income and resulted in satisfactory growth in rental income. However, due to expiry of tenancy, government demolition and business condition, HOBA Furnishing closed 4 stores during the Period. This resulted in perceptive drop in its revenue and affected the growth rate of the Groups revenue income. Overall, during the Period, rental income of the Group increased by 2.3% to HK$361.5 million (1H FY2016/17: HK$353.5 million).

Property Management Service Income

Income from property management services increased by 61.3% to HK$247.1 million (1H FY2016/17: HK$153.2 million). The increase in property management service income was mainly attributable to the increasing GFA of trade centers, shops and residential properties delivered and put into use during the Period.

E-commerce Income

E-commerce income as derived from the E-commerce services provided to the Group's customers increased by 34.6% to HK$85.4 million (1H FY2016/17: HK$63.4 million) during the Period. The online membership programme of the Group were well received by customers. By joining the programme, the customers can enjoy a wide range of E-commerce service offered by the Group's E-commerce platform, CSC86.com.

Other Revenue

Other revenue increased by 36.1% to HK$226.5 million (1H FY2016/17: HK$166.4 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 56.9% to HK$130.6 million (1H FY2016/17: HK$83.2 million) while that of logistic and warehousing services increased 15.0% to HK$86.1 million (1H FY2016/17: HK$74.9 million) respectively during the Period.

Increase in income from outlet operations was mainly due to the growth of outlet 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 operating costs for rental income. During the Period, cost of sales increased by 29.4% to HK$2,134.8 million (1H FY2016/17: HK$1,650.2 million). The increase in cost of sales was basically in line with the increase of GFA of properties sold during the Period.

Gross Profit

Gross profit increased by 19.6% to HK$1,485.5 million (1H FY2016/17: HK$1,242.6 million). During the Period, gross profit margin decreased to 41% (1H FY2016/17: 43%) which was mainly due to a higher portion of residential properties in our product mix of sales, which had a relatively lower profit margin when compared to that of trade centers.

Other Income and Gains/(Losses)

Other income and gains/(losses) decreased by 63.5% to HK$250.0 million (1H FY2016/17: HK$684.2 million), mainly attributable to the decrease in government grants which was HK$240.6 million for the Period (1H FY2016/17: HK$740.9 million).

Fair Value Gains on Investment Properties

The fair value gains on investment properties increased by 10.7% to HK$1,066.4 million (1H FY2016/17: HK$963.1 million). The increase was mainly contributed by the addition of new investment properties at an existing project.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 22.3% to HK$307.4 million (1H FY2016/17: HK$395.5 million). The decrease was mainly attributable to the effective cost control measures taken to marketing activities for promoting the sales of properties during the Period.

Administrative Expenses

Administrative expenses decreased by 8.0% to HK$518.3 million (1H FY2016/17: HK$563.1 million). The decrease was primarily due to the actions taken by the Group to streamline human resources and the effective control of administrative costs. Besides, during the Period, the Group granted 120,000,000 share options to two executive Directors. Together with share options granted in prior periods, share options expenses of HK$27.9 million (1H FY2016/17: HK$18.3 million) were recorded.

Finance Costs

Finance costs increased by 7.5% to HK$118.1 million (1H FY2016/17: HK$109.9 million). It was due to the decrease of capitalized interest expenses during the Period. As at the end of September 2017, the Group's weight average financing cost was 6.22%, which was slightly higher than that of 6.16% as at the end of March 2017.

Tax

Tax expenses recorded a decrease of 14.7% to HK$752.3 million (1H FY2016/17: HK$882.1 million). The decrease in tax expenses was mainly due to the decrease in land appreciation tax.

Prepayments, Deposits and Other Receivables

During the Period, prepayments, deposits and other receivables increased by 29.1% to HK$1,377.0 million (31 March 2017: HK$1,066.8 million), which was mainly due to the increase in deposits paid for construction of new projects.

Trade and Other Payables

Trade and other payables increased by 28.1% to HK$21,472.3 million (31 March 2017: HK$16,763.2 million). The increase was mainly due to the increase in deposits and receipts in advance during the Period. As at 30 September 2017, the balances of construction fee and retention payables and deposits and receipts in advance were HK$5,825.4 million and HK$11,775.1 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. The Group will continue to explore different financing means and to extend its financing channels.

Cash and Cash Equivalents and Restricted Cash

As at 30 September 2017, the Group had HK$9,285.2 million cash and cash equivalents and restricted cash (31 March 2017: HK$10,490.9 million), among which non-restricted cash and cash equivalents amounted to HK$6,474.3 million (31 March 2017: HK$8,022.0 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 2017, the total interest-bearing debts of the Group was HK$35,262.4 million (31 March 2017: HK$32,772.9 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 an aggregated interest-bearing bank and other borrowings of HK$17,234.9 million as at 30 September 2017 (31 March 2017: HK$13,412.5 million), of which HK$8,810.7 million will be repayable within one year or on demand, HK$3,180.1 million will be repayable in the second year, HK$4,420.2 million will be repayable in the third to fifth years and HK$823.9 million will be repayable after five years. As at 30 September 2017, the Group's interest-bearing bank and other borrowings of approximately HK$14,383.8 million were secured by certain buildings, investment properties, properties under development, properties held for finance lease, properties held for sale and bank deposits with a total carrying value of approximately HK$28,381.3 million.

Except for the bank loan with balance of HK$400 million (31 March 2017: nil) denominated in HK dollars and bearing interest at floating rates of HIBOR+2.5%, all interest-bearing bank and other borrowings of the Group were denominated in Renminbi with interest rates ranging from 4.1% to 8.5% (31 March 2017: 4.4% to 6.2%) per annum. Furthermore, as at 30 September 2017, the Group had unused banking facilities of HK$5,554.8 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 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, in a total of US$350 million (equivalents to approximately HK$2,730 million) at a coupon rate of 6.75% per annum for the purpose of refinancing existing indebtedness and for general corporate purposes.

In March 2017, the Company issued senior notes due in March 2020 with a nominal value of US$300 million (equivalents to approximately HK$2,340 million) at a coupon rate of 5.75% per annum for the purpose of refinancing existing indebtedness and for general corporate purposes.

In November 2017, the Company issued senior notes due in November 2022 with a nominal value of US$300 million (equivalents to approximately HK$2,340 million) at a coupon rate of 7.25% per annum for the purpose of refinancing existing indebtedness in relation to the construction and development of our projects and for general corporate purposes.

As at 30 September 2017, the carrying value of senior notes were HK$4,968.1 million. The senior notes are jointly guaranteed by certain subsidiaries and secured by pledges of shares of certain subsidiaries.

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 2016, China South International issued the first tranche of the short-term notes of 2016 ("**2016 First Tranche STN**") 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 for general corporate purpose and repaying part of the bank loans of the Group. The 2016 First Tranche STN have been repaid in September 2017.

In October 2016, 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 RMB6.0 billion. In June and August 2017, China South International issued the first tranche and the second tranche of the short-term notes of 2017 with a total principal amount of RMB500 million with a maturity period of 270 days and at an interest rate of 6.5% per annum for each tranche, respectively. 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 the medium-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB4.0 billion. In May 2014, China South International issued the first tranche of the medium-term notes of 2014 with a total principal amount of RMB1.0 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 RMB1.0 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 issue the first tranche of the medium-term notes of 2015 with a total principal amount of RMB2.0 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. In April 2017, China South International obtained another approval for issuing the medium-term notes with a maximum principal amount of RMB3.0 billion. China South International may issue new medium-term notes when appropriate.

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 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 the domestic company bonds of 2016 with a total principal amount of RMB3.0 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 the 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 2017, the carrying values of China South International's short-term notes were HK$1,174.0 million, medium-term notes were HK$4,750.3 million, corporate bonds were HK$1,792.5 million and domestic company bonds were HK$5,342.6 million respectively.

Gearing Ratio

The Group's gearing ratio (net debt divided by total equity) was 85.6% as at 30 September 2017, 78.2% as at 31 March 2017 and 88.1% as at 30 September 2016. The total liabilities over total assets ratio was 69.2% as at 30 September 2017 (31 March 2017: 68.0%).

Net Current Assets and Current Ratio

As at 30 September 2017, the Group had net current assets of HK$3,360.0 million (31 March 2017: HK$7,485.0 million) at a current ratio of 1.09 (31 March 2017: 1.25).

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 when the lessees repaid the loan. As at 30 September 2017, the guarantees amounted to HK$10,460.2 million (31 March 2017: HK$9,396.3 million).

Commitments

As at 30 September 2017, the Group had future capital expenditure contracted but not yet provided for in the amount of HK$9,099.5 million (31 March 2017: HK$8,787.7 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 2017, among the Group's total interest-bearing debts of HK$35,262.4 million, approximately HK$5,368.1 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 and 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. Through 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 46 to the financial statements as set out in the Company's 2016/17 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 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 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. 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 2017, the Group had a workforce of approximately 5,890 persons. The number of the Group's staff decreased by approximately 8.3% from 6,420 persons as at 31 March 2017. 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 in aggregate 120,000,000 share options to two executive Directors of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the 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, should attend general meetings of the Company. During the Period, a non-executive Director of the Company was unable to attend the last annual general meeting of the Company held on 21 August 2017 as he had other prior business engagement.

Pursuant to Rule 3.10A of the Listing Rules, the independent non-executive Directors of a listed issuer must represent at least one-third of the board of directors of such listed issuer. Upon the appointment of Mr. Song Chuan and Ms. Cheng Ka Man Carman as executive Directors on 4 May 2017, the number of independent non-executive Directors was less than one-third of the Board as required under Rule 3.10A of the Listing Rules during the period from 4 May 2017 to 24 July 2017. Mr. Sun Kai Lit Cliff, Dr. Ma Wai Mo and Mr. Leung Moon Lam resigned as non-executive Directors of the Company and were appointed as Honourable Advisers of the Group on 25 July 2017. Since then, the Company is in compliance with Rule 3.10A.

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 2017.

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 2017 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 period, the Company has early redeemed the 2014 Notes in April 2017. Subsequently, the 2014 Notes were cancelled and delisted from the official list of the Singapore Exchange Securities Trading Limited accordingly.

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, 30 November 2017

As at the date of this announcement, the executive Directors of the Company are Mr. Cheng Chung Hing, Mr. Fung Sing Hong Stephen, Mr. Song Chuan and Ms. Cheng Ka Man Carman; the non-executive Directors of the Company are Dr. Ma Kai Cheung, SBS, BBS, 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.