Hydoo 毅德控股

# HYDOO INTERNATIONAL HOLDING LIMITED
# 毅德國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1396)**

## ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

### INTERIM RESULTS

The board of directors (the "**Board**") of Hydoo International Holding Limited (the "**Company**" or "**Hydoo**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2014 (the "**Period**"), together with comparative figures for the preceding period as follows:

**Consolidated statement of profit or loss**

*for the six months ended 30 June 2014 - unaudited (expressed in Renminbi)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | *Note* | **2014** | 2013 |
| | | ***RMB'000*** | *RMB'000* |
| **Turnover** | 4 | **974,115** | 189,764 |
| Cost of sales | | **(354,229)** | (96,732) |
| **Gross profit** | | **619,886** | 93,032 |
| Other revenue | 5 | **3,576** | 4,168 |
| Other net income | 5 | **32,875** | — |
| Selling and distribution expenses | | **(72,880)** | (44,244) |
| Administrative and other operating expenses | | **(218,289)** | (150,201) |
| **Profit/(loss) from operations** | | **365,168** | (97,245) |
| Finance income | 6(a) | **7,837** | 4,473 |
| Finance costs | 6(a) | **(808)** | (39,936) |
| Change in fair value of embedded derivative on redeemable convertible preference shares | | **—** | (48,920) |
| **Profit/(loss) before taxation** | 6 | **372,197** | (181,628) |
| Income tax | 7 | **(153,114)** | (11,580) |
| **Profit/(loss) for the period** | | **219,083** | (193,208) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **220,896** | (192,826) |
| Non-controlling interests | | **(1,813)** | (382) |
| **Profit/(loss) for the period** | | **219,083** | (193,208) |
| **Earnings/ (losses) per share** | 8 | | |
| Basic (RMB) | | **0.05** | (0.07) |
| Diluted (RMB) | | **0.05** | (0.07) |

Details of dividends to equity shareholders of the Company are set out in note 16(a).

## Consolidated statement of profit or loss and other comprehensive income

*for the six months ended 30 June 2014 - unaudited (expressed in Renminbi)*

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Profit/(loss) for the period** | **219,083** | (193,208) |
| **Other comprehensive income for the period (after tax and reclassification adjustments):** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of subsidiaries outside the Mainland China, net of nil tax | **6,903** | 15,204 |
| Available-for-sale investments: net movement in fair value reserve | **4,790** | — |
| **Other comprehensive income for the period** | **11,693** | 15,204 |
| **Total comprehensive income for the period** | **230,776** | (178,004) |
| **Attributable to:** | | |
| Equity shareholders of the Company | **232,562** | (177,622) |
| Non-controlling interests | **(1,786)** | (382) |
| **Total comprehensive income for the period** | **230,776** | (178,004) |

## Consolidated statement of financial position

*at 30 June 2014 unaudited (expressed in Renminbi)*

| | *Note* | **30 June 2014** *RMB'000* | 31 December 2013 *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **64,859** | 61,031 |
| Intangible assets | | **1,990** | 1,329 |
| Goodwill | 9 | **3,631** | 2,252 |
| Other non-current financial assets | | **25,779** | 23,618 |
| Deferred tax assets | | **243,448** | 213,913 |
| | | **339,707** | 302,143 |
| **Current assets** | | | |
| Inventories | 10 | **6,215,457** | 5,390,826 |
| Current tax assets | | **131,648** | 111,762 |
| Trade and other receivables, prepayments and deposits | 11 | **941,462** | 682,941 |
| Restricted cash | | **167,837** | 103,031 |
| Available-for-sale investments | 12 | **847,690** | 120,000 |
| Short-term time deposits | | **93,070** | — |
| Cash and cash equivalents | | **2,842,664** | 4,292,994 |
| | | **11,239,828** | 10,701,554 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **4,036,463** | 3,828,104 |
| Bank loans and other borrowings | 14 | **369,540** | 281,860 |
| Current tax liabilities | | **848,625** | 932,982 |
| Deferred income | 15 | **853,252** | 858,082 |
| | | **6,107,880** | 5,901,028 |
| **Net current assets** | | **5,131,948** | 4,800,526 |
| **Total assets less current liabilities** | | **5,471,655** | 5,102,669 |

| | Note | 30 June 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | 14 | **1,382,250** | 602,000 |
| Deferred income | 15 | **5,930** | 5,843 |
| Deferred tax liabilities | | **36,038** | 63,038 |
| | | **1,424,218** | 670,881 |
| **NET ASSETS** | | **4,047,437** | 4,431,788 |
| **CAPITAL AND RESERVES** | 16 | | |
| Share capital | | **31,855** | 31,945 |
| Reserves | | **3,966,746** | 4,389,126 |
| **Total equity attributable to equity shareholders of the Company** | | **3,998,601** | 4,421,071 |
| Non-controlling interests | | **48,836** | 10,717 |
| **TOTAL EQUITY** | | **4,047,437** | 4,431,788 |

## Notes to the unaudited interim financial statements

*(Expressed in Renminbi unless otherwise indicated)*

### 1 Basis of preparation

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), including compliance with International Accounting Standard ("**IAS**") 34, Interim financial reporting, issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issue on 22 August 2014.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial information is unaudited, but has been reviewed by KPMG 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.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial information as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2014.

### 2 Changes in accounting policies

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial information:

- Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities
- Amendments to IAS 32, Offsetting financial assets and financial liabilities
- Amendments to IAS 36, Recoverable amount disclosures for non-financial assets

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**3 Segment reporting**

Operating segments, and the amounts of each segment item reported in the interim financial information, are identified from the financial data and information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. No segment information is presented in respect of the Group's operating segment as the Group is principally engaged in one segment in the PRC. The Group does not operate in any other geographical or business segment during the period.

**4 Turnover**

The principal activities of the Group are development, sales and operation of commercial trade and logistics centers and residential properties in the PRC.

Turnover represents income from sales of properties, property management services income and rental income net of business tax and other sales related taxes and is after deduction of any trade discounts.

The amounts of each significant category of revenue recognised in turnover during the period are as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Sales of properties | **964,432** | 187,220 |
| Property management services | **6,861** | 2,377 |
| Rental income | **2,822** | 167 |
| | **974,115** | 189,764 |

**5 Other revenue and other net income**

| | **Six months ended 30 June** | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Other revenue** | | |
| Dividend income | **3,243** | 4,019 |
| Others | **333** | 149 |
| | **3,576** | 4,168 |
| **Other net income** | | |
| Net gains on disposal of available-for-sale investments | **32,946** | — |
| Net loss on disposal of property, plant and equipment | **(71)** | — |
| | **32,875** | — |

## 6 Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| (a) Finance income and finance costs: | | |
| Interest income | **(6,760)** | (4,473) |
| Net foreign exchange gain | **(1,077)** | — |
| Finance income | **(7,837)** | (4,473) |
| Interest on bank loans and other borrowings | **51,445** | 74,728 |
| Less: Interest expenses capitalised into properties under development | **(50,637)** | (74,728) |
| Interest expense | **808** | — |
| Net foreign exchange loss | **—** | 2,772 |
| Finance expense on redeemable convertible preference shares | **—** | 37,164 |
| Finance costs | **808** | 39,936 |
| (b) Other items: | | |
| Depreciation and amortisation | **10,860** | 6,521 |
| Operating lease charges | **9,584** | 4,683 |
| Cost of properties sold (i) | **348,107** | 95,917 |
| Equity settled share-based payment expenses | **1,422** | 3,050 |

(i) Cost of properties sold is after netting off benefits from government grants of RMB182,582,000 (six months ended 30 June 2013: RMB23,857,000).

## 7 Income tax

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| ***Current tax*** | | |
| PRC Corporate Income Tax | **122,005** | 124,920 |
| PRC Land Appreciation Tax | **87,644** | 11,324 |
| | **209,649** | 136,244 |
| ***Deferred tax*** | | |
| Origination and reversal of temporary differences | **(56,535)** | (124,664) |
| | **153,114** | 11,580 |

(a) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in this jurisdiction.

(b) No provision for Hong Kong Profits Tax was made as the Group did not earn income subject to Hong Kong Profits Tax during the period.

(c) PRC Corporate Income Tax ("**CIT**")

The Group's PRC subsidiaries are subject to statutory tax rate of 25% on their assessable profits.

In July 2013, Ganzhou Hydoo Commercial and Trade Logistics Park Development Company Limited was approved to enjoy a preferential corporate income tax rate of 15% from the years 2012 to 2020 according to a tax notice issued by the local tax bureau. The preferential tax treatment was based on various tax rules and regulations in relation to PRC government's strategy in encouraging investment and development of wholesale trading markets in certain regions of China.

(d) PRC Land Appreciation Tax ("**PRC LAT**")

LAT which is levied on properties developed for sale by the Group in the PRC, at progressive rates ranging from 30% to 60% on the appreciation value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing costs and all qualified property development expenditures. Deferred tax assets arising from PRC LAT accrued are calculated based on the applicable income tax rates when they are expected to be cleared.

In addition, certain subsidiaries of the Group were subject to PRC LAT which were calculated based on 6% to 8% of their revenue in accordance with the authorised tax valuation method approved by respective local tax bureau.

The directors of the Company are of the opinion that the authorised tax valuation method is one of the allowable taxation methods in the PRC and the respective local tax bureaus are the competent tax authorities to approve the authorised tax valuation method in charging PRC LAT to the respective PRC subsidiaries of the Group, and the risk of being challenged by the State Administration of Taxation or any tax bureau of higher authority is remote.

(e) PRC dividend withholding tax

The PRC CIT Law and its implementation rules impose a withholding tax at 10%, unless reduced by a tax treaty or arrangement, for dividends distributed by PRC-resident enterprises to their non-PRC-resident corporate investors for profits earned since 1 January 2008. Under the Sino-Hong Kong Double Tax Agreement, a qualified Hong Kong tax resident is entitled to a reduced withholding tax rate of 5% if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise directly.

Since the Group could control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

At 30 June 2014, deferred tax liabilities in respect of the PRC dividend withholding tax relating to the undistributed profits of the Company's PRC subsidiaries of RMB1,269,913,000 (31 December 2013: RMB995,334,000) were not recognised as the Company controls the dividend policy of these subsidiaries. Based on the assessment made by management as at the end of each reporting period, it was determined that such undistributed profits of the Company's PRC subsidiaries would not be distributed in the foreseeable future.

## 8 Earnings/ (losses) per share

### (a) Basic earnings/(losses) per share

The calculation of basic earnings/(losses) per share is based on profit attributable to ordinary equity shareholders of the Company of RMB220,896,000 (six months ended 30 June 2013: loss of RMB192,826,000) and the weighted average of 4,026,851,000 ordinary shares in issue during the interim period (2013: 2,649,744,000 shares, as if the capitalisation issue has occurred throughout the six months ended 30 June 2013).

### (b) Diluted earnings/(losses) per share

The calculation of diluted earnings per share for the six months ended 30 June 2014 is based on the profit attributable to ordinary equity shareholders of the Company of RMB220,896,000 and the weighted average number of ordinary shares of 4,071,239,000.

For the six months ended 30 June 2013, the Company's dilutive potential ordinary shares outstanding were anti-dilutive. Diluted losses per share were therefore equal to basic losses per share. The diluted losses per share for the six months ended 30 June 2013 was calculated as if the capitalisation issue has occurred throughout the six months ended 30 June 2013.

## 9 Goodwill

| | 30 June 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|
| Cost and carrying amount | **3,631** | 2,252 |

On 30 May 2014, the Group acquired 100% equity interest in Jiangxi Haode Shangqing Advertisement Company Limited 江西豪德商情广告有限公司* ("**Haode Shangqing**") from Mr. Wang Desheng, one of the Controlling Shareholders (note i) of the Group, for a consideration of RMB2,000,000. Haode Shangqing is engaged in provision of marketing and advertising services.

The acquisition has the following effect on the Group's assets and liabilities:

| | **At 30 May 2014** *RMB'000* |
|---|---|
| Cash and cash equivalents | 184 |
| Other receivables and prepayments | 547 |
| Property, plant and equipment | 532 |
| Intangible assets | 13 |
| Trade and other payables | (655) |
| Fair value of net identifiable assets acquired | 621 |

Calculation of goodwill is as follows:

| | **At 30 May 2014** *RMB'000* |
|---|---|
| Cash paid | 2,000 |
| Less: fair value of net identifiable assets acquired | (621) |
| Goodwill | 1,379 |

* The company is a PRC limited liability company. The English translation of the company name is for reference only. The official name of the company is in Chinese.

(i) Mr.Wong Choihing and Mr. Wang Quanguang together with Mr. Wang Dewen, Mr. Wang Jianli, Mr. Wang Desheng, Mr. Wang Dekai, Mr. Huang Dehong and Mr. Wong Sheungtak, Most Trend Holdings Limited, Mr. Wong Kim and Eminent Ascend Limited collectively are the controlling shareholders of the Group ("**the Controlling Shareholders**").

Had the acquisition been occurred on 1 January 2014, the Group's consolidated turnover for the six months ended 30 June 2014 would have been increased by RMB194,000 and the Group's consolidated profit for the period would have been decreased by RMB264,000.

The Group carried out impairment testing of the goodwill at the end of each reporting period. In assessing the impairment of goodwill, the recoverable amount of the cash generating units ("**CGU**") is determined. The CGU related to the goodwill comprises the Company's knowledge and expertise of the management and existing customers. The directors determined that no impairment of goodwill is necessary as at 30 June 2014.

## 10 Inventories

| | **30 June 2014** *RMB'000* | 31 December 2013 *RMB'000* |
|---|---|---|
| **Property development** | | |
| Properties under development for sale | **3,068,374** | 2,043,265 |
| Completed properties held for sale | **1,483,321** | 1,852,241 |
| Properties held for future development for sale | **1,663,506** | 1,495,128 |
| | **6,215,201** | 5,390,634 |
| **Others** | | |
| Low-value consumption goods | **256** | 192 |
| | **6,215,457** | 5,390,826 |

As at 30 June 2014, certain properties under development for sale, completed properties held for sale and properties held for future development for sale were pledged for certain bank loans granted to the Group (note 14).

During the period, the directors considered that all of the above properties were developed for sale, and none of them were specifically designated for earning rental or for capital appreciation or both. Accordingly, none of the properties were classified as investment properties at the end of each of the reporting period.

## 11 Trade and other receivables, prepayments and deposits

| | **30 June 2014** *RMB'000* | 31 December 2013 *RMB'000* |
|---|---|---|
| Trade receivables – current | **4,549** | 12,893 |
| Prepaid business tax and other taxes | **217,454** | 124,883 |
| Deposits, prepayments and other receivables | **719,459** | 545,165 |
| | **941,462** | 682,941 |

Trade receivables are primarily related to proceeds receivable from the sale of properties.

As at 30 June 2014, the Group has no concentration of credit risk in view of its large number of customers. The Group did not record significant bad debts losses during the period.

## 12 Available-for-sale investments

At 30 June 2014, available-for-sale investments represented investments in quoted funds and unlisted wealth management products issued by banks, financial institutions or asset management companies which are either redeemable on demand or with maturities within 12 months.

All of the available-for-sale investments of the Group were valued as at 30 June 2014 by an independent firm of valuers, Savills Valuation and Professional Services Limited, with recent experience in valuation of such investments. The valuation technique and inputs used in estimating the fair value of these investments are set out in note 18.

## 13 Trade and other payables

As at the end of the reporting period, the ageing analysis of trade creditors based on invoice date, is as follows:

| | **30 June 2014** *RMB'000* | 31 December 2013 *RMB'000* |
|---|---|---|
| Due within 1 month or on demand | **245,566** | 467,596 |
| Due after 1 month but within 3 months | **480,658** | 132,982 |
| Due after 3 months but within 6 months | **237,560** | 599,780 |
| Due after 6 months | **52,042** | 66,678 |
| Trade and bills payables | **1,015,826** | 1,267,036 |
| Receipts in advance | **2,821,668** | 2,376,504 |
| Other payables and accruals | **198,969** | 184,564 |
| | **4,036,463** | 3,828,104 |

## 14 Bank loans and other borrowings

At 30 June 2014, the Group's bank loans and other borrowings were repayable as follows:

| | **30 June 2014** *RMB'000* | 31 December 2013 *RMB'000* |
|---|---|---|
| **Current** | | |
| Secured | | |
| – short term bank loans and other borrowings | **20,000** | 70,000 |
| – current portion of secured non-current bank loans and other borrowings | **349,540** | 183,860 |
| Unsecured | | |
| – short term bank loans | **—** | 28,000 |
| | **369,540** | 281,860 |
| **Non-current** | | |
| Secured | | |
| Repayable after 1 year but within 2 years | **544,500** | 181,000 |
| Repayable after 2 years but within 5 years | **837,750** | 421,000 |
| | **1,382,250** | 602,000 |
| | **1,751,790** | 883,860 |

At 30 June 2014, the bank loans and other borrowings are all denominated in Renminbi, of which RMB387,000,000 (2013: RMB285,000,000) bear fixed interest rates and the remainder bear variable interest rates.

Bank loans and other borrowings bear interest rates ranging from 6.40% to 10.23% per annum for the six months ended 30 June 2014 (2013: 6.40% to 17.00% per annum), and are secured by the following assets:

| | **30 June 2014** ***RMB'000*** | 31 December 2013 *RMB'000* |
|---|---|---|
| Properties under development for sale | **362,029** | 722,620 |
| Completed properties held for sale | **1,289,887** | 460,535 |
| Properties held for future development for sale | **288,882** | 133,360 |
| | **1,940,798** | 1,316,515 |

At 30 June 2014, certain bank loans of the Group totalling RMB215,900,000 (2013: RMB130,200,000) were not in compliance with the imposed covenants. Such non-compliance primarily relates to (1) certain operating subsidiaries failed to achieve certain statement of financial position ratio at the end of the reporting period and (2) an operating subsidiary distributed profits during the period. The directors of the Company are of the view that such bank loans are non-current liabilities at 30 June 2014. Such view was based on notices from the corresponding financial institutions dated 30 June 2014, which confirmed that the subsidiaries would not be regarded as having breached the covenant and the bank would not demand early repayment from the subsidiaries.

## 15 Deferred income

During the six months ended 30 June 2014, the Group recognised grants of RMB177,752,000 from certain governments for the Group's projects.

Pursuant to the respective agreements between the Group and local governments, such grants are for subsidising the infrastructure construction of certain projects undertaken by the Group's property development subsidiaries.

| | **30 June 2014** ***RMB'000*** | 31 December 2013 *RMB'000* |
|---|---|---|
| **Current** | | |
| – Government grants recognised (note i) | **853,252** | 858,082 |
| **Non-current** | | |
| – Deferred revenue in relation to sale and operating leaseback arrangement (note ii) | **5,930** | 5,843 |

Note

(i) Pursuant to the respective agreements between the Group and local governments, such grants are for subsidising the infrastructure construction of certain projects undertaken by the Group's property development subsidiaries. During the six months ended 30 June 2014, the Group recognised grants of RMB177,752,000 (six months ended 30 June 2013: RMB388,462,000) from certain governments for the Group's projects.

(ii) In conjunction with certain sales contracts entered into by Jining Hydoo Logistics Center Development Company Limited for sales of prosperities, the Group subsequently leased back certain sold properties from the respective buyers under operating leases for terms of 3 to 10 years at agreed rental rates. Upon recognition of the sales of such properties, a portion of the sales proceeds, which represent the excess of sales price over fair value of such properties, is deferred and amortised over the respective terms. During the six months ended 30 June 2014, the deferred revenue arising from such sales and leaseback arrangements amounted to RMB87,000 (six months ended 30 June 2013:RMB2,077,000). The revenue (net of business tax and surcharges) recognised from sales of such properties amounted to RMB660,000 (six months ended 30 June 2013: RMB15,853,000).

## 16 Capital, reserves and dividends

### (a) Dividends

The Board has resolved not to declare any interim dividends for the six months ended 30 June 2014. Dividends paid to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK 19.5 cents per share (six months ended 30 June 2013: Nil) | **624,309** | — |

### (b) Share capital

#### *(i) Authorised and issued share capital*

| | At 30 June 2014 | | At 31 December 2013 | |
|---|---|---|---|---|
| | **No. of shares** | **Amount** | No. of shares | Amount |
| | ***’000*** | ***HK$’000*** | *’000* | *HK$’000* |
| Authorised: | | | | |
| Ordinary shares of HK$0.01 each | **8,000,000** | **80,000** | 8,000,000 | 80,000 |

Ordinary shares, issued and fully paid:

| | *Note* | **Par value** | **Number of Shares** | **Nominal value of ordinary shares** | |
|---|---|---|---|---|---|
| | | *US$* | | *HK$’000* | *RMB’000* |
| At 1 January 2013 | (1) | 1.00 | 55,203 | 428 | 365 |
| | | *HK$* | *’000* | *HK$’000* | *RMB’000* |
| Redenomination and cancellation of shares | (1) | 0.01 | 42,782 | 428 | 365 |
| Global offering and over-allotment | | 0.01 | 780,206 | 7,802 | 6,182 |
| Capitalisation issue | | 0.01 | 3,197,274 | 31,972 | 25,321 |
| Automatic conversion of redeemable convertible preference shares upon global offering | | 0.01 | 9,688 | 97 | 77 |
| At 31 December 2013 and 1 January 2014 | | 0.01 | 4,029,950 | 40,299 | 31,945 |
| Shares repurchased and cancelled | (2) | 0.01 | (11,376) | (114) | (90) |
| Shares repurchased not yet cancelled | (2) | 0.01 | (3,730) | — | — |
| At 30 June 2014 | | 0.01 | 4,014,844 | 40,185 | 31,855 |

Note

(1) At 1 January 2013, the Company's issued and fully paid capital comprises US$67,703 divided into 55,203 ordinary shares with a par value of US$1.00 each and 12,500 preferred shares with a par value of US$1.00 each. On 29 April 2013, the Company re-denominated its authorised share capital from US dollars to Hong Kong dollars. The Company repurchased all the outstanding US dollar ordinary shares and preferred shares at par. For each of the US dollar ordinary share/preferred share repurchased, the Company issued to the shareholder 775 Hong Kong dollar ordinary shares/preferred shares at par. Immediately following the repurchase, the Company cancelled the repurchased and unissued US dollar ordinary shares and preferred shares. After the re-denomination and cancellation, the Company's issued and fully paid-up capital comprises 42,782,325 ordinary shares and 9,687,500 preferred shares at a par value of HK$0.01 each.

(2) During the period, the Company repurchased 15,106,000 of its own ordinary shares on the Stock Exchange for a total consideration of HK$40,443,550 (equivalent to approximately RMB32,145,000).

At 30 June 2014, 11,376,000 of the 15,106,000 repurchased ordinary shares have been cancelled and the related issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(3) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of HK$113,760 (equivalent to approximately RMB90,000) was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of shares of HK$31,003,740 (equivalent to approximately RMB24,739,000) was charged to the share premium reserve account.

Pursuant to Section 37A of the Companies Law of the Cayman Islands, the amount of HK$9,326,050 (equivalent to approximately RMB7,406,000) incurred on the repurchase of 3,730,000 ordinary shares not yet cancelled at the end of the reporting period are accounted for as treasury shares in equity.

**(c) Non-controlling interests**

During the six months ended 30 June 2014:

The Group established non-wholly owned subsidiaries, 懷遠毅德商貿物流城有限公司 Huaiyuan Hydoo City Development Company Limited* and Hongkong Deshang Bright Ocean Limited, of which RMB8,000,000 and HK$4,949,681 (equivalent to approximately RMB3,905,000) was paid up by the respective non-controlling equity holders.

The Group increased the paid-in capital of Xingning Hydoo Commercial and Trade Center Company Limited by RMB140,000,000, of which RMB28,000,000 was paid up by the non-controlling equity holder.

* The Company is a PRC limited liability company. The English translation of the company name is for reference only. The official name of the company is in Chinese.

## 17 Equity settled share-based payments

The Company has a share option scheme (the "**Pre-IPO Share Option Scheme**"), which was first adopted on 30 November 2011, whereby the directors of the Company were authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. Additional options were further granted to certain employees of the Group on 16 October 2012 and 20 March 2013 respectively. After such grants, a total number of 1,715 share options were granted to employees. Each option gives the holder the right to subscribe for 1 ordinary shares in the Company and is settled gross in shares.

### (a) The terms and conditions of the grants are as follows:

| | *Number of instruments* | *Contractual life of options* |
|---|---|---|
| Total number of options granted | 1,715 | |
| Options granted on 30 November 2011 | | |
| – directors | 325 | 85 months |
| – employees | 1,180 | 85 months |

| *Vesting date* | *Percentage of vested shares* |
|---|---|
| 31 December 2012 | 25% |
| 31 December 2013 | 50% |
| 31 December 2014 | 75% |
| 31 December 2015 | 100% |

| | | |
|---|---|---|
| Options granted on 16 October 2012 | | |
| – employees | 191 | 74 months |

| *Vesting date* | *Percentage of vested shares* |
|---|---|
| 31 December 2013 | 25% |
| 31 December 2014 | 50% |
| 31 December 2015 | 75% |
| 31 December 2016 | 100% |

| | | |
|---|---|---|
| Options granted on 20 March 2013 | | |
| – directors | 19 | 69 months |

| *Vesting date* | *Percentage of vested shares* |
|---|---|
| 31 December 2014 | 25% |
| 31 December 2015 | 50% |
| 31 December 2016 | 75% |
| 31 December 2017 | 100% |

The options are exercisable from six months after the Company's initial public offering date to 31 December 2018.

**(b) Adjustments on number of options and exercise price:**

Pursuant to the relevant terms of the Pre-IPO Share Option Scheme, on 31 October 2013, being the listing date of the Share of the Company, each share with a par value of US$1.00 each under each Option granted was automatically adjusted to 48,000 Options and the exercise price per Share of each Option was adjusted from HK$48,654 to HK$1.014 accordingly. As a result, Options to subscribe for an aggregate of 82,320,000 Shares at an exercise price of HK$1.014 per Share were outstanding.

| | Number of Share Options |
|---|---|
| Outstanding at 31 December 2013 and 30 June 2014 | 82,320,000 |

The Options outstanding at 30 June 2014 had a remaining contractual life of 4.5 years (2013: 5 years).

No Options were issued, forfeited, or exercised during the six months ended 30 June 2014 (2013: nil).

**(c) Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

| | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 |
|---|---|---|---|---|
| **Grant date of 30 November 2011** | | | | |
| Fair value at measurement date (HK$) | 9,125 | 9,136 | 9,175 | 9,231 |
| Share value (HK$) | 29,054 | 29,054 | 29,054 | 29,054 |
| Expected volatility (1) | 43.87% | 43.87% | 43.87% | 43.87% |
| Dividend yield (2) | — | — | — | — |
| Risk-free interest rate (3) | 1.08% | 1.08% | 1.08% | 1.08% |
| Suboptimal exercise factor | 3.0 | 3.0 | 3.0 | 3.0 |
| Forfeiture rate | — | — | — | — |

| | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 |
|---|---|---|---|---|
| **Grant date of 16 October 2012** | | | | |
| Fair value at measurement date (HK$) | 42,430 | 42,743 | 43,035 | 43,237 |
| Share value (HK$) | 79,664 | 79,664 | 79,664 | 79,664 |
| Expected volatility (1) | 38.19% | 38.19% | 38.19% | 38.19% |
| Dividend yield (2) | — | — | — | — |
| Risk-free interest rate (3) | 1.10% | 1.10% | 1.10% | 1.10% |
| Suboptimal exercise factor | 3.0 | 3.0 | 3.0 | 3.0 |
| Forfeiture rate | — | — | — | — |

| | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 |
|---|---|---|---|---|
| **Grant date of 20 March 2013** | | | | |
| Fair value at measurement date (HK$) | 49,308 | 49,583 | 49,761 | 49,851 |
| Share value (HK$) | 89,689 | 89,689 | 89,689 | 89,689 |
| Expected volatility (1) | 36.74% | 36.74% | 36.74% | 36.74% |
| Dividend yield (2) | — | — | — | — |
| Risk-free interest rate (3) | 0.51% | 0.51% | 0.51% | 0.51% |
| Suboptimal exercise factor | 3.0 | 3.0 | 3.0 | 3.0 |
| Forfeiture rate | — | — | — | — |

Note

(1) Volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical and implied equity stock price volatility of listed comparable companies over a period comparable to the expected term of the options.

(2) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

(3) Risk-free interest rate

Risk-free interest rate was estimated based on the yield of Hong Kong Exchange Fund Bills/Notes with a maturity period equal to the expected term of the options as of the valuation date.

Changes in the above subjective input assumptions could materially affect the fair value estimate. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

## 18 Fair value measurement of financial instruments

(i) Financial instruments measured at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3 valuations: Fair value measured using significant unobservable inputs

| | **Fair value at 30 June 2014** | **Fair value measurements as at 30 June 2014 categorised into** | | | Fair value at 31December 2013 | Fair value measurements as at 31 December 2013 categorised into | | |
|---|---|---|---|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** | | Level 1 | Level 2 | Level 3 |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Recurring fair value measurements** | | | | | | | | |
| Financial assets: | | | | | | | | |
| Available-for-sale investments | | | | | | | | |
| – Wealth management products | **847,690** | **—** | **847,690** | **—** | 120,000 | — | 120,000 | — |

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of wealth management products in Level 2 is the estimated amount that the Group would receive upon expiry or termination at the end of the reporting period, taking into account the related current interest rates.

During the Period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels and fair value hierarchy as at the end of the reporting period in which they occur.

## 19 Capital commitments outstanding not provided for in the interim financial statements

At the end of the reporting period, the Group's commitments in respect of property development expenditure are as follows:

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contracted but not provided for | **2,218,045** | 1,223,694 |

## 20 Contingent liabilities

**Guarantees**

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalty owned by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyer obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyer.

The maximum amount of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at the reporting date is as follows:

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties | **2,084,447** | 1,482,069 |

The directors of the Company consider that it is not probable that the Group will sustain a loss under these guarantees, the Group can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Group to the banks. The directors also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

## 21 Material related party transactions

### (a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's executive directors are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Wages, salaries and other benefits | **9,150** | 7,042 |
| Contribution to defined contribution retirement schemes | **188** | 74 |
| Equity settled share-based payment expenses | **728** | 1,453 |
| | **10,066** | 8,569 |

### (b) Transactions with related parties

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Receipts from related parties | | |
| – the Controlling shareholders | **—** | 796 |
| Payments to related parties | | |
| – the Controlling shareholders | **—** | (228) |
| – Others | **—** | (1,000) |
| | **—** | (1,228) |
| Sales of properties to related parties | **—** | 607 |
| Acquisition of subsidiary from one of the Controlling Shareholders (Note 9) | **2,000** | — |

### (c) Balances with related parties

There were no outstanding balances with related parties at 30 June 2014 and 31 December 2013.

## CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Hydoo International Holding Limited, I am pleased to present the first interim report of the Group.

### Results

The Group recorded growth in its financial performance for the Period, during which turnover and gross profit increased to approximately RMB974.1 million and approximately RMB619.9 million, respectively, representing an increase of approximately 413.2% and approximately 566.6%, respectively compared with that of the corresponding period in 2013. The turnover was mainly attributable to the revenue recorded from sales of properties in Ganzhou Trade Center, Mianyang Trade Center, Yulin Trade Center and Jining Trade Center. Profit attributable to equity shareholders for the Period also rose to approximately RMB220.9 million representing a year-on-year increase of 214.6%. Basic earnings per share for the Period were RMB5.5 cents.

### Review of Market Trends and Strategy

During the Period, the growth rate of the overall domestic economy dropped and the overall sales decreased as compared with that of the corresponding period in 2013. As a result, the Group encountered difficulties in selling properties during the Period. However, certain projects of the Group still achieved good sales performance under such a tough environment.

During the Period, the Group has consistently implemented its prudent business strategy to ensure cautious management of our cash flows and capital. The Group focuses on its core business, developing and operating trade and logistics centers, and relevant extensional business, actively looks for greater opportunities arising from the urbanization development of small and mid-sized cities in China, and generates stable returns through recurring revenue.

Given the increasing demand from small and medium-sized enterprises to conduct more businesses online, the Group believes that the next revolutionary step for the Chinese wholesale market will be the merger between the far-reaching network tools and offline platforms. In order to capitalize on this opportunity, the Group will leverage its offline resources, timely and actively integrate them into the online trading economy and the Internet finance. The Group will actively facilitate this process through self-development and cooperation, including the establishment of an E-commerce platform at Mianyang Trade Center, comprising online trading, logistics and payment platforms. Through the integration of online and offline resources, the E-commerce platform of Mianyang Trade Center will establish the overall modern logistics trading system and create an intelligent, professional and comprehensive big data information trading platform.

## Review of Performance for the Period

*Land Acquisition and Land Bank*

During the Period, we have entered into master investment agreements with local government authorities regarding three new trade center projects, namely Bengbu Trade Center, Tianjin Trade Center and Jiamusi Trade Center. We also acquired land-use rights with an aggregate site area of approximately 0.3 million sq.m., which is expected to have an aggregate estimated GFA of approximately 0.5 million sq.m. As of 30 June 2014, we had a total land bank of 8.1 million sq.m., and we were simultaneously developing ten trade center projects in seven provinces and autonomous regions in China.

*Sales Performance and Property Delivery*

During the Period, the Group's contracted sales and contracted sales area reached RMB1,472.8 million and 222,552 sq.m., respectively, representing decreases of 72.6% and 65.5% respectively from the same period last year.

The Group also delivered properties with a total GFA amounting to 139,116 sq.m. during the Period, representing an increase of 249.4% from same period last year. The increase in the Group's turnover and gross profit during the Period to approximately RMB974.1 million and approximately RMB619.9 million, respectively, demonstrates our successful operating strategies and our strong execution capabilities.

*Strong Financial Position*

We implemented a build-to-sell business model in the early stage of project development, and operated and managed it in the late stage. Due to our short development cycle, we achieved an efficient turnover rate and a lesser need for capital investments, which guaranteed our healthy financial leverage level. As of 30 June 2014, our bank loans and other borrowings were RMB1,751.8 million and we had total cash(1) of RMB3,103.6 million. Our net cash position(2) can help reduce our operation risk, provide funding for our investment in new projects, and allow leverage for external financing.

*Note:*

(1) Total cash represents the sum of the Group's cash and cash equivalents, short-term time deposits and restricted cash.

(2) Net cash position represents the Group's total cash less bank loans and other borrowings.

**Prospects**

From a long term perspective, China's urbanization is far from accomplished and its economic transformation has just begun. With the support of infrastructure investment and domestic demand recovery, the Chinese economic growth momentum is expected to continue. In addition, according to the National New Urbanization Plan (2014-2020) (the "**Plan**") issued by the State Council during the Period, the Chinese government will focus on the development of small cities and towns, turning them into trade and logistics centers and transportation hubs, among other professional specialties. Furthermore, the Ministry of Commerce of the People's Republic of China will soon release the Opinions on Promoting the Development of Trade and Logistics Business, which includes promoting the development of trade and logistics business in certain key areas, improving organizational level, and encouraging the development of larger enterprises with stronger market positions. The Company is cautiously optimistic about the future of this industry and will actively react to it. As one of the leading developers and operators of integrated large-scale trade and logistics centers in China, Hydoo will continue to play an important role in facilitating urbanization and, ultimately, upgrading and transforming cities, and will in turn benefit from the enormous opportunities brought about by such process as well as the increasingly strong domestic demand.

Leveraging our proven business model, extensive industry experience and ample potential development opportunities, we believe that we can capture favourable opportunities in the future in order to bring greater value to our shareholders. At the same time, the Group will continue to strengthen the online and offline service platforms to provide more value-added services for our online and offline customers.

**Appreciation**

Lastly, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our valued shareholders, customers and business partners for their trust and support. I would also like to thank all our staff for their important contribution and wholehearted commitment.

**Huang Dehong**
Executive Director

Hong Kong, 25 August 2014

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Land acquisition and land bank

During the Period, the Group continued to develope new projects in certain fast growing small and mid-sized cities in China in a bid to achieve sustainable business growth. During the Period, we have entered into master investment agreements with local government authorities regarding three new trade center projects, namely Bengbu Trade Center, Tianjin Trade Center and Jiamusi Trade Center.

In January 2014, we entered into the Bengbu Master Investment Agreement with the government of Huaiyuan County, Bengbu City, Anhui Province, the PRC, pursuant to which, we agreed to undertake the construction and development of a large-scale integrated trade and logistics center in Huaiyuan County.

In April 2014, we entered into the Tianjin Master Investment Agreement with the government of Yang Liu Qing Town, Xiqing District, Tianjin Municipality, the PRC, pursuant to which, we agreed to undertake the construction and development of a large-scale integrated trade and logistics center in Yang Liu Qing Town.

In May 2014, we entered into the Jiamusi Master Investment Agreement with the government of Jiamusi City, Heilongjiang Province, the PRC, pursuant to which, we agreed to undertake the construction and development of a large-scale integrated trade and logistics center in Jiamusi City.

We also acquired land-use rights with an aggregate total site area of approximately 0.3 million sq.m., which is expected to have an aggregate estimated GFA of approximately 0.5 million sq.m during the Period. As of 30 June 2014, we had a total land bank of 8.1 million sq.m., and we were simultaneously developing ten trade center projects in seven provinces and autonomous regions in China.

Details of land bank for each project are shown in the table below:

| | **Actual GFA of completed properties** *(sq.m.)* | **Estimated GFA of properties under development** *(sq.m.)* | **Estimated GFA of properties planned for future development** *(sq.m.)* | **Total GFA with land use rights** *(sq.m.)* | **Total GFA of properties delivered** *(sq.m.)* | **Land bank** *(sq.m.)* |
|---|---|---|---|---|---|---|
| Ningxiang Trade Center | 381,949 | 61,518 | N/A | 443,467 | 277,764 | 165,703 |
| Jining Trade Center | 423,875 | 184,563 | 594,360 | 1,202,798 | 324,091 | 878,707 |
| Yulin Trade Center | 229,220 | 54,744 | 360,836 | 644,800 | 161,894 | 482,906 |
| Mianyang Trade Center | 262,816 | 243,276 | 102,748 | 608,840 | 210,270 | 398,570 |
| Ganzhou Trade Center | 509,262 | 250,342 | 2,806,735 | 3,566,339 | 390,567 | 3,175,772 |
| Wuzhou Trade Center | N/A | 472,136 | 612,880 | 1,085,016 | N/A | 1,085,016 |
| Heze Trade Center | N/A | 246,785 | 163,147 | 409,932 | N/A | 409,932 |
| Xingning Trade Center | N/A | 48,255 | 235,876 | 284,131 | N/A | 284,131 |
| Yantai Trade Center | N/A | 13,172 | 191,228 | 204,400 | N/A | 204,400 |
| Lanzhou Trade Center | N/A | N/A | 974,580 | 974,580 | N/A | 974,580 |
| Haode Yinzuo | 48,650 | N/A | N/A | 48,650 | 38,170 | 10,480 |
| Total | 1,855,772 | 1,574,791 | 6,042,390 | 9,472,953 | 1,402,756 | 8,070,197 |

**Sales performance and property delivery**

During the Period, the Group delivered properties with a total GFA of 139,116 sq.m., representing an increase of 249.4% (six months ended 30 June 2013: 39,816 sq.m.). The Group's revenue and gross profit increased to approximately RMB974.1 million and approximately RMB619.9 million respectively. During the Period, the Group recorded contracted sales of approximately RMB1,472.8 million and contracted sales area of 222,552 sq.m., representing decreases of 72.6% and 65.5% respectively. As part of our business strategy, we tend to commence pre-sale of properties at one to three new projects each year. The timing of pre-sale commencement and property delivery as well as the amount of contracted sales recorded is generally affected by project development progress. Contracted sales recorded during the Period were primarily related to pre-sale of properties at projects in Mianyang, Ganzhou, Wuzhou and Heze, compared to those related to projects in Ganzhou and Yulin in the same period last year. Our historical property pre-sale and contracted sales amounts are not indicative of future results and we expect that we will continue to experience similar fluctuations during future periods. Details of contracted sales recorded for the Period are shown in the table below:

| | Contracted sales area | Average contracted sales price (before deduction of business tax and surcharges) | Contracted sales amount (before deduction of business tax and surcharges) | Project contribution (%)[1] |
|---|---|---|---|---|
| | *(contracted sales area in sq.m., average contracted sales price in RMB per sq.m. and contracted sales amount in thousands of RMB)* | | | |
| Mianyang Trade Center | | | | |
| Wholesale trading market units | 93,631 | 6,828 | 639,270 | 43.4% |
| Ganzhou Trade Center | | | | |
| Wholesale trading market units | 3,284 | 9,689 | 31,818 | 2.2% |
| Shopping mall | 47,734 | 7,250 | 346,065 | 23.5% |
| Wuzhou Trade Center | | | | |
| Wholesale trading market units | 33,125 | 5,735 | 189,973 | 12.9% |
| Shopping mall | 4,899 | 8,599 | 42,128 | 2.9% |
| Heze Trade Center | | | | |
| Wholesale trading market units | 28,376 | 5,539 | 157,186 | 10.6% |
| Jining Trade Center | | | | |
| Wholesale trading market units | 6,969 | 5,122 | 35,697 | 2.4% |
| Yulin Trade Center | | | | |
| Wholesale trading market units | 667 | 5,241 | 3,496 | 0.2% |
| Shopping mall | 3,687 | 7,226 | 26,644 | 1.8% |
| Ningxiang Trade Center | | | | |
| Serviced apartments | 180 | 2,917 | 525 | 0.1% |
| Total | 222,552 | 6,618 | 1,472,802 | 100% |

*Note:*

(1) Project contribution (%) is calculated by dividing the contracted sales amount (before deduction of business tax and surcharges) by the total contracted sales amount (before deduction of business tax and surcharges) and then multiplying by 100%.

**Strong financial position**

We implemented a build-to-sell business model in the early stage of project development, and operated and managed it in the late stage. Due to our short development cycle, we achieved an efficient turnover rate and a lesser need for capital investments, which guaranteed our healthy financial leverage level. As of 30 June 2014, our bank loans and other borrowings were RMB1,751.8 million and we had a total cash of RMB3,103.6 million. Our net cash position can help to reduce our operation risk, provide funding for our investment in new projects, and allow leverage for external financing.

**Ningxiang Trade Center**

Ningxiang Trade Center is located approximately 3 kilometers west of Ningxiang's city center, a county in Changsha, the capital of Hunan province. Highway 319 runs along the eastern edge of the Ningxiang Trade Center and provides Ningxiang with convenient access to other key cities in Hunan, such as Changsha, Zhuzhou and Xiangtan.

Ningxiang Trade Center is planned to cover a site area of 1.3 million sq.m., and has an aggregate estimated GFA of approximately 1.2 million sq.m., which is expected to be developed in three phases. As of 30 June 2014, we had acquired land-use rights for all of Phase I encompassing a total site area of 301,387 sq.m. and expect a total GFA of 443,467sq.m. upon full completion of Phase I.

As of 30 June 2014, we completed the construction of wholesale trading markets, a freight-forwarding market, a commercial and exhibition center, warehouses, a bus terminal and information center, serviced apartments and had a hotel under construction at this trade center project.

**Jining Trade Center**

Jining Trade Center is located approximately 6 kilometers west of Jining, a prefecture-level city in southwestern Shandong province, and is one of the three major industrial bases in Shandong province. It is easily accessible by a number of connecting bus lines, and lies within 10 kilometers of the Jining train station and 30 kilometers of Jining Qufu airport.

Jining Trade Center is planned to cover a site area of approximately 2.0 million sq.m., and has an aggregate estimated GFA of approximately 3.0 million sq.m., which is expected to be developed in three phases. As of 30 June 2014, we had acquired land-use rights for all of Phase I and Phase II encompassing a total site area of 975,863 sq.m. and expect a total GFA of 1,202,798 sq.m. for Phase I and Phase II when fully completed.

As of 30 June 2014, we completed the construction of wholesale trading markets and a shopping mall, were constructing a commercial center, a hotel, an office building, and a commercial and exhibition center, and had warehouses, serviced apartments, office buildings, a residential area and additional wholesale trading markets planned for future development at this trade center project.

**Yulin Trade Center**

Yulin Trade Center is located approximately 2 kilometers from Yulin, the fourth largest city in Guangxi, located along the border with Guangdong province. The trade center's northern edge is bounded by Yulin Second Ring Road. It is 3 kilometers from Guang-Kun Freeway and is within 10 kilometers of Yulin train station.

Yulin Trade Center is planned to cover a site area of approximately 1.1 million sq.m. and has an aggregate estimated GFA of approximately 2.0 million sq.m., which is expected to be developed in three phases. As of 30 June 2014, we had acquired land-use rights for all of Phase I and a portion of Phase II encompassing a total site area of 415,868 sq.m. with a total planned GFA of approximately 644,800 sq.m. upon full completion of Phase I and Phase II development.

As of 30 June 2014, we completed the construction of wholesale trading markets and shopping malls, were constructing an additional shopping mall, and had serviced apartments, additional shopping malls, a commercial and exhibition center and additional wholesale trading markets planned for future development at this trade center project.

**Miangyang Trade Center**

Miangyang Trade Center is strategically located in Mianyang, the second largest city in Sichuan Province, approximately 120 kilometers northeast of Chengdu, the capital of Sichuan province, along the key highway and railway that connects Sichuan province and western and northern China.

Mianyang Trade Center covers a net land area of approximately 605,084 sq.m., which is estimated to consist of at least two phases, and is estimated to have a total GFA of approximately 608,840 sq.m. when fully completed. As of 30 June 2014, we had acquired all the land-use rights for this trade center project.

As of 30 June 2014, we completed the construction of wholesale trading markets, were constructing a commercial pedestrian street and additional wholesale trading markets, and had additional wholesale trading markets planned for future development at this trade center project.

**Ganzhou Trade Center**

Ganzhou Trade Center is strategically located in southwestern Jiangxi province near the intersection of Jiangxi, Hunan and Guangdong provinces. Ganzhou lies along a major transportation route connecting the inland areas of China with China's southeastern coast. Two major railways intersect in Ganzhou, the Jing-Jiu Railway and the Gan-Long Railway.

Ganzhou Trade Center covers a net land area of approximately 1,475,298 sq.m., which is estimated to consist of at least two phases, and is estimated to have a total GFA of approximately 3.6 million sq.m. when fully completed. As of 30 June 2014, we had acquired all the land-use rights for this trade center project.

As of 30 June 2014, we completed the construction of wholesale trading markets, were constructing shopping malls and additional wholesale trading markets, and had a commercial and exhibition center, additional shopping malls, a food street, warehouses, supporting buildings and facilities, office buildings, residential area, hotels and additional wholesale trading markets planned for future development at this trade center project.

**Wuzhou Trade Center**

Wuzhou Trade Center is strategically located in Wuzhou, a city in eastern Guangxi near the border of Guangxi and Guangdong province. It is approximately 370 kilometers east of Nanning, the capital of Guangxi, and approximately 270 kilometers west of Guangzhou, the capital of Guangdong province.

Wuzhou Trade Center is planned to cover a site area of approximately 1.3 million sq.m. and has an aggregate estimated GFA of approximately 2.0 million sq.m., which is expected to be developed in two phases. As of 30 June 2014, we had acquired land-use rights for all of Phase I encompassing a total site area of 599,642 sq.m. with a total GFA of 1,085,016 sq.m. upon full completion of Phase I development.

As of 30 June 2014, we were constructing certain supporting buildings and facilities, wholesale trading markets, a commercial and exhibition center, shopping malls, and had a residential area, office buildings and a hotel planned for future development at this trade center project.

**Heze Trade Center**

Heze Trade Center is located in the city's central Mudan District along National Highway 220 and is approximately two kilometers from Heze's city center.

Heze Trade Center is planned to cover a site area of approximately 8.0 million sq.m. and has an aggregate estimated GFA of approximately 12.0 million sq.m. which is expected to be developed in three phases. As of 30 June 2014, we had acquired land-use rights for a portion of Phase I encompassing a total site area of 392,280 sq.m. with a total GFA of approximately 409,932 sq.m. upon completion of development.

As of 30 June 2014, we were constructing wholesale trading markets and a commercial and exhibition center, and had shopping malls, office buildings, a residential area, certain supporting buildings and facilities and additional wholesale trading markets planned for future development at this trade center project.

**Xingning Trade Center**

Xingning Trade Center is located to the northeast of the Xingning Train Station in Xingning's Diaofang township. Xingning is a city of Meizhou city, in northeast Guangdong province near Jiangxi and Fujian provinces, which is accessible by major national highways connecting Guangdong and various other provinces in China.

Xingning Trade Center is planned to cover a site area of approximately 1.3 million sq.m. with a total GFA of approximately 2.0 million sq.m. which is expected to be developed in three phases. As of June 30, 2014, we had acquired land-use right for a portion of Phase I encompassing a total site area of 170,509 sq. m. with a total GFA of approximately 284,131 sq.m. upon completion of development.

As of 30 June 2014, we were constructing wholesale trading markets and certain supporting buildings and facilities, and had additional wholesale trading markets and office buildings planned for future development at this trade center project .

**Yantai Trade Center**

Yantai Trade Center is located in southern Zhifu District of Yantai City, west of Shenhai Highway, 9 kilometers north of Yantai railway station, east of the Yantai wharf and 9.5 kilometers south of the Laishan International Airport and Rongwu Highway. The location of Yantai Trade Center has exceptional geographical and transportation advantages.

Yantai Trade Center is planned to cover a site area of approximately 1.3 million sq.m. with a total GFA of approximately 2.4 million sq.m. which is expected to be developed at least in two phases. As of 30 June 2014, we had acquired land-use rights for a portion of Phase I encompassing a total site area of 44,233 sq.m. with a total GFA of 204,400 sq.m. upon completion.

As of 30 June 2014, we were constructing a sales and marketing center, and had wholesale trading markets, office buildings, certain supporting buildings and facilities, serviced apartments and shopping malls planned for future development at this trade center project.

**Lanzhou Trade Center**

Lanzhou Trade Center is located in Lanzhou's Heping township, the middle of Lanzhou City and Yuzhong County and next to the community of Lanzhou college. It is located in the south of Qinglan Highway and National Road 312 and the north of National Road 309, and is approximately 15 kilometers from downtown Lanzhou City, 20 kilometers and 80 kilometers from the railway station and airport of Lanzhou City, respectively.

Lanzhou Trade Center is planned to cover a site area of approximately 4.0 million sq.m. with a total GFA of approximately 6.0 million sq.m which is expected to be developed at least in two phases. As of June 30, 2014, we had acquired land-use rights for portion of Phase I encompassing a total site area of 571,295 sq.m. with a total GFA of 974,580 sq.m. upon completion.

As of 30 June 2014, wholesale trading markets, shopping malls, a hotel, office buildings, a commercial and exhibition center, a residential area, warehouses, a food street and supporting buildings and facilities were planned for future development at this trade center project.

**Bengbu Trade Center**

Bengbu Trade Center is expected to occupy land with an estimated total site area of approximately 0.4 million sq.m. and has an aggregate estimated GFA of approximately 1.0 million sq.m. As of 30 June 2014, we have not entered into a land grant contract with respect to Bengbu Trade Center.

**Tianjin Trade Center**

Tianjin Trade Center is expected to occupy land with an estimated total site area of approximately 0.5 million sq.m. and has an aggregate estimated GFA of approximately 1.2 million sq.m. As of 30 June 2014, we have not entered into a land grant contract with respect to Tianjin Trade Center.

**Jiamusi Trade Center**

Jiamusi Trade Center is expected to occupy land with an estimated total site area of approximately 2.0 million sq.m. and has an aggregate estimated GFA of approximately 3.0 million sq.m. As of 30 June 2014, we have not entered into a land grant contract with respect to Jiamusi Trade Center.

## FINANCIAL REVIEW

## DISCUSSION OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS ITEMS

### Turnover

Turnover increased by RMB784.3 million, or 413.2%, from RMB189.8 million for the six months ended June 30, 2013 to RMB974.1 million for the Period. This increase was primarily caused by an increase in revenue from sales of properties. The following table sets forth our turnover from sales of properties, property management services and rental income during the periods indicated.

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | **Turnover** | | Turnover | |
| | ***(RMB'000)*** | *%* | *(RMB'000)* | *%* |
| Sales of properties | **964,432** | **99.0** | 187,220 | 98.7 |
| Property management services | **6,861** | **0.7** | 2,377 | 1.2 |
| Rental income | **2,822** | **0.3** | 167 | 0.1 |
| Total | **974,115** | **100.0** | 189,764 | 100.0 |

### Sales of properties

Revenue from sales of properties increased by RMB777.2 million, or 415.2%, from RMB187.2 million for the six months ended 30 June 2013 to RMB964.4 million for the Period. Our revenue from sales of properties for the Period was primarily derived from the sales of wholesale trading market units at our Ganzhou Trade Center, Mianyang Trade Center, Jining Trade Center and shopping mall at our Yulin Trade Center.

The following table sets forth the GFA, average sales price and revenue from properties delivered during the periods indicated:

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | | | 2013 | | |
| | **GFA** | **Average sales price** | **Revenue** | GFA | Average sales price | Revenue |
| | ***GFA in sq.m., average sales price in RMB per sq.m. and revenue in thousands of RMB*** | | | | | |
| **Ganzhou Trade Center** | | | | | | |
| Wholesale trading market units | **56,442** | **8,014** | **452,315** | — | — | — |
| **Subtotal** | **56,442** | **N/A** | **452,315** | — | — | — |
| **Mianyang Trade Center** | | | | | | |
| Wholesale trading market units | **34,559** | **6,797** | **234,898** | — | — | — |
| **Subtotal** | **34,559** | **N/A** | **234,898** | — | — | — |
| **Yulin Trade Center** | | | | | | |
| Wholesale trading market units | **4,488** | **4,979** | **22,345** | 17,889 | 4,975 | 88,994 |
| Shopping mall | **16,860** | **8,183** | **137,966** | — | — | — |
| **Subtotal** | **21,348** | **N/A** | **160,311** | 17,889 | N/A | 88,994 |
| **Jining Trade Center** | | | | | | |
| Wholesale trading market units | **24,304** | **4,418** | **107,366** | 12,858 | 3,943 | 50,695 |
| Shopping mall | **—** | **—** | **—** | 3,038 | 6,538 | 19,864 |
| **Subtotal** | **24,304** | **N/A** | **107,366** | 15,896 | N/A | 70,559 |
| **Ningxiang Trade Center** | | | | | | |
| Wholesale trading market units | **2,367** | **3,920** | **9,279** | 4,980 | 4,158 | 20,711 |
| Serviced apartments | **96** | **2,740** | **263** | — | — | — |
| **Subtotal** | **2,463** | **N/A** | **9,542** | 4,980 | N/A | 20,711 |
| **Other Properties** | | | | | | |
| Haode Yinzuo | **—** | **—** | **—** | 1,051 | 6,620 | 6,956 |
| **Subtotal** | **—** | **—** | **—** | 1,051 | N/A | 6,956 |
| **Total** | **139,116** | **N/A** | **964,432** | 39,816 | N/A | 187,220 |

The GFA of properties sold increased by 99,300 sq.m., or 249.4%, from 39,816 sq.m. for the six months ended 30 June 2013 to 139,116 sq.m. for the Period. The increase in the GFA of properties sold was primarily from the delivery of wholesale trading market units at our trade center projects in Ganzhou, Mianyang and Jining and shopping mall at our Yulin Trade Center during the Period.

The average sales price of our wholesale trading market units increased during the same period, primarily due to differences in sales prices for different regions. In particular, the average sales price of wholesale trading market units sold at Ganzhou and Mianyang Trade Centers was generally higher than the price of similar properties sold in the six months ended 30 June 2013, mainly at Jining Trade Center and Yulin Trade Center.

**Property management services**

Revenue from property management services increased by RMB4.5 million, from RMB2.4 million for the six months ended 30 June 2013 to RMB6.9 million for the Period. This increase primarily reflected the continued expansion of our property management portfolio, including our acquisition of a 51% equity interest in Ganzhou Jiuzhi Property Management Services Company Limited in June 2013 which further increased the scope of our property management service operations.

**Cost of Sales**

Cost of sales increased by RMB257.5 million or 266.3%, from RMB96.7 million for the six months ended 30 June 2013 to RMB354.2 million for the Period. This increase was generally in line with our increase in turnover during the same periods.

Cost of properties sold increased by RMB252.2 million, or 263.0%, from RMB95.9 million for the six months ended 30 June 2013 to RMB348.1 million for the Period, primarily reflecting increases in GFA sold. In particular, (i) our construction costs increased by RMB315.8 million, or 338.8%, from RMB93.2 million for the six months ended 30 June 2013 to RMB409.0 million for the Period, (ii) our land acquisition costs increased by RMB95.5 million, or 364.5%, from RMB26.2 million for the six months ended 30 June 2013 to RMB121.7 million for the Period, and (iii) our government grants credited to cost of sales increased by RMB158.7 million, or 664.0%, from RMB23.9 million for the six months ended 30 June 2013 to RMB182.6 million for the Period. The increase in major components of our cost of sales reflected our increase in sales of properties and the expansion of business scale.

**Gross Profit**

As a result of the foregoing, gross profit increased by RMB526.9 million, or 566.6%, from RMB93.0 million for the six months ended 30 June 2013 to RMB619.9 million for the Period. Our gross profit margin increased from 49.0% for the six months ended 30 June 2013 to 63.6% for the Period. The increase in our gross profit margin for the Period compared to the six months ended 30 June 2013 was primarily due to a higher proportion of revenue being generated from Ganzhou Trade Center of our overall revenue for the Period, which yielded a relatively higher gross profit margin compared to that of Jining Trade Center and Yulin Trade Center which contributed to a significant portion of our gross profits for the six months ended 30 June 2013.

**Other Revenue**

We recorded a dividend income of RMB3.2 million for the Period (six months ended 30 June 2013: RMB4.0 million) in connection with a 10% minority investment made to a local rural credit cooperative institution in Mianyang.

**Other Net Income**

Other net income for the Period mainly represents net gains on disposal of available-for-sale investments, which are investments in quoted funds and unlisted wealth management products issued by banks, financial institutions or asset management companies based on the Company's treasury policy.

**Selling and Distribution Expenses**

Selling and distribution expenses increased by RMB28.7 million, or 64.9%, from RMB44.2 million for the six months ended 30 June 2013 to RMB72.9 million for the Period. The increase primarily reflected an increase in advertisement expenses and staff compensation. Such increases were generally in line with our increase in turnover during the Period. The selling and distribution expenses as percentage of turnover decreased from 23.3% in the six months ended 30 June 2013 to 7.5% for the Period, primarily reflecting our continued effort to enhance operating efficiency and our capability in managing our sales and marketing activities.

**Administrative and Other Operating Expenses**

Administrative and other operating expenses increased by RMB68.1 million, or 45.3%, from RMB150.2 million for the six months ended 30 June 2013 to RMB218.3 million for the Period. The increase primarily reflected increases in staff-related expenses. The increases were primarily due to a significantly higher level of administrative expenses incurred to support our growing operational scale during the Period compared to the six months ended 30 June 2013. Our administrative and other operating expenses as a percentage of turnover decreased from 79.2% for the six months ended 30 June 2013 to 22.4% for the Period. This decrease reflected our continued efforts to enhance of operating efficiency in managing our administrative activities.

**Finance Income**

Our finance income increased by RMB3.3 million, from RMB4.5 million for the six months ended 30 June 2013 to RMB7.8 million for the Period. The increase reflected an increase in interest income on our bank deposit as a result of the increase in bank deposit during the same period.

**Finance Costs**

Our finance costs decreased by RMB39.1 million, or 98.0%, from RMB39.9 million for the six months ended 30 June 2013 to RMB0.8 million for the Period. The decrease primarily reflected a decrease of RMB37.2 million in finance expenses recorded on our Preferred Shares issued to Hony Capital Fund 2008, L.P. ("**Hony Capital**"). Substantially all of the interest expenses paid on bank loans and other borrowings for the Period were capitalized into properties under development.

**Change in Fair Value of Embedded Derivative on Redeemable Convertible Preference Shares**

The decrease of RMB48.9 million for the Period in the fair value reflected the conversion of preferred shares we issued to Hony Capital in 2011 to ordinary shares upon the listing of the Company's shares on the Stock Exchange.

**Income Tax**

Our income tax expense increased by RMB141.5 million, from RMB11.6 million for the six months ended 30 June 2013 to RMB153.1 million for the Period. Such increase primarily reflected a significant increase in taxable income as a result of the revenue generated from sales of properties in our trade centers.

**Profit/(loss) for the Period**

As a result of the foregoing, our profit increased by RMB412.3 million, or 213.4%, from a net loss of RMB193.2 million for the six months ended 30 June 2013 to a net profit of RMB219.1 million for the Period.

## DISCUSSION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

### Trade and Other Receivables

Our trade and other receivables primarily consist of deposits, prepayments and other receivables and prepaid business tax and other taxes. The following table sets forth the major components of our trade and other receivables as of the dates indicated.

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Deposits, prepayments and other receivables | **719,459** | 545,165 |
| Prepaid business tax and other taxes | **217,454** | 124,883 |
| Trade and bills receivables | **4,549** | 12,893 |
| Total | **941,462** | 682,941 |

Deposits, prepayments and other receivables primarily represent development expenditures incurred in connection with properties planned for future development for which we have not yet obtained land-use rights certificates, and other receivables due from parties other than our trading customers. In particular, our deposits, prepayments and other receivables as of 30 June 2014 primarily related to our expenditures incurred in connection with additional properties planned for future development for which we had not yet obtained land-use rights certificates at the trade center projects in Lanzhou, Yantai and Heze.

## RESTRICTED CASH

Restricted cash amounted to RMB167.8 million as of 30 June 2014 compared to RMB103.0 million as of 31 December 2013. Our restricted cash as of 30 June 2014 primarily represented the cash we pledged to commercial banks for relevant mortgage facilities granted to our customers for the purpose of purchasing properties by our customers. Such pledged cash generally represents 2-10% of the total credit provided by commercial banks. The increase in our restricted cash as of 30 June 2014 primarily reflected the increase in property sales obtaining mortgage loans provided by commercial banks to our customers which are subject to the cash pledge arrangement described above during this period.

**Trade and Other Payables**

Trade and other payables primarily consist of receipts in advance and trade payables. The following table sets forth the major components of our trade and other payables as of the dates indicated.

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade and bills payables | **1,015,826** | 1,267,036 |
| Receipts in advance | **2,821,668** | 2,376,504 |
| Other payables and accruals | **198,969** | 184,564 |
| Total | **4,036,463** | 3,828,104 |

Trade and bills payables mainly represent amounts due to construction contractors and payables recorded in connection with our acquisition of land-use rights. Our payment to construction contractors is generally made in installments according to pre-agreed payment milestones as set out in the construction contracts. We generally fully settle the payment to construction contractors within one month, except that we normally retain 2-10 % of the contract amount to cover any damages as a result of any construction defects. Such retention money payables are generally settled one year after the completion of the construction work.

Receipts in advance primarily consist of proceeds from property pre-sales paid by our customers before relevant properties are delivered to our customers. Such proceeds received are recognized as turnover when the construction of the relevant properties is completed and the properties are delivered to purchasers. The increase in our balance of receipts in advance as of 30 June 2014 compared to 31 December 2013 was due to the pre-sale proceeds from trade center projects in Mianyang, Ganzhou, Wuzhou and Heze.

**Deferred Income**

Deferred income as of a period end primarily represents the total amount of government grants recognised prior to such date after netting off the portion of the government grants that has been credited to cost of sales prior to such date. During the Period, we recognised government grants of RMB177.8 million (six months ended 30 June 2013: RMB388.5 million). During the Period, RMB182.6 million was credited to cost of properties sold (six months ended 30 June 2013: RMB23.9 million). As a result, our deferred income amounted to RMB859.2 million and RMB891.3 million as of 30 June 2014 and 30 June 2013, respectively. Our government grants recognised for the Period and the six months ended 30 June 2013 were primarily related to development activities as Ganzhou, Mianyang and Heze Trade Centers.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for construction costs and land acquisition costs, fund working capital, service our indebtedness, purchase property, plant and equipment for our own use. To date, we have primarily financed our operational expenditures through internally generated cash flows including proceeds from the pre-sale and sales of properties, equity investments made by our pre-IPO investors, borrowings from commercial banks and other financial institutions and proceeds from our initial public offering.

### Cash flow

As of 30 June 2014, we had RMB2,842.7 million in cash and cash equivalents (30 June 2013: RMB2,364.9 million). The following table sets forth a summary of our consolidated cash flow statements for the periods indicated.

**Selected consolidated cash flow statement data**

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Net cash (used in)/ generated from operating activities | **(956,373)** | 1,879,056 |
| Net cash (used in)/ generated from investing activities | **(700,796)** | 36,722 |
| Net cash generated from/(used in) financing activities | **199,936** | (132,072) |
| Net (decrease)/ increase in cash and cash equivalents | **(1,457,233)** | 1,783,706 |
| Cash and cash equivalents at 1 January | **4,292,994** | 584,379 |
| Effect of foreign exchange rate changes | **6,903** | (3,184) |
| Cash and cash equivalents at 30 June | **2,842,664** | 2,364,901 |

**Bank loans and other borrowings**

The following table sets forth our outstanding bank loans and other borrowings as of the dates indicated.

| | The Group | |
|---|---|---|
| | **30 June 2014** | 31 December 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Current** | | |
| Secured | | |
| – short term bank loans and other borrowings | **20,000** | 70,000 |
| – current portion of secured non-current bank loans and other borrowings | **349,540** | 183,860 |
| Unsecured | | |
| – short term bank loans | **—** | 28,000 |
| **Subtotal** | **369,540** | 281,860 |
| **Non-current** | | |
| Secured | | |
| Repayable after 1 year but within 2 years | **544,500** | 181,000 |
| Repayable after 2 years but within 5 years | **837,750** | 421,000 |
| **Subtotal** | **1,382,250** | 602,000 |
| **Total** | **1,751,790** | 883,860 |

At 30 June 2014, the bank loans and other borrowings are all denominated in Renminbi, of which RMB387,000,000 (2013: RMB285,000,000) bear fixed interest rates and the remainder bear variable interest rates.

Bank loans and other borrowings bear interest rates ranging from 6.40% to 10.23% per annum for the Period (2013: 6.40% to 17.00% per annum) and are secured by the following assets:

| | **30 June 2014** *RMB'000* | 31 December 2013 *RMB'000* |
|---|---|---|
| Properties under development for sale | **362,029** | 722,620 |
| Completed properties held for sale | **1,289,887** | 460,535 |
| Properties held for future development for sale | **288,882** | 133,360 |
| Total | **1,940,798** | 1,316,515 |

## CONTINGENT LIABILITIES

We make arrangements with PRC commercial banks so that such banks may provide mortgage facilities to our customers to purchase our properties. In accordance with market practice, we are required to provide guarantees to these banks in respect of mortgages provided to such customers. Guarantees for such mortgages are generally discharged at the earlier of: (i) the due registration of the mortgage interest held by the commercial bank upon the subject property, or (ii) the settlement of mortgage loans between the mortgagee banks and the purchasers. In addition, we are required by the banks to place a security deposit to secure our guarantee obligations. If a purchaser defaults on the mortgage loan, we are typically required to purchase the underlying property by paying off the mortgage loan with any accrued and unpaid interest and penalty based on the loan agreement. If we fail to do so, the mortgagee banks will auction the underlying property and recover the balance from us if the outstanding loan amount exceeds the net foreclosure sale proceeds. Such amount may also be settled through withholding the security deposit we place with the banks. In line with industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks. As of 30 June 2014, our maximum amount of guarantees provided to banks for mortgage facilities granted to our customers amounted to RMB2,084.4 million.

## COMMITMENTS

### Commitments on Development Costs

The following table sets forth our commitments in respect of property development expenditures as of the dates indicated. Our commitments were primarily related to the development costs contracted but not provided for as of the dates indicated.

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contracted but not provided for | **2,218,045** | 1,223,694 |

## KEY FINANCIAL RATIOS

The following table sets out our current ratios and gearing ratios as of the end of the reporting periods indicated.

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| Current ratio (1) | **1.84** | 1.81 |
| Gearing ratio (2) | **15.1%** | 8.0% |

*Notes:*

(1) Our current ratio is calculated by dividing current assets by current liabilities as of the end of the respective reporting period.

(2) Our gearing ratio is calculated by dividing total interest bearing borrowings (includes bank loans and other borrowings and redeemable convertible preference shares) by total assets as of the end of the respective reporting period and multiplying by 100%.

## QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT FINANCIAL RISK

Reflecting the nature of our property development, investment and management operations, we are exposed to various financial risks in the normal course of our business. For example, our sales were primarily denominated in RMB, being the functional currency of our major operating subsidiaries, therefore, our Board expects the future exchange rate fluctuation will not have any material effect on our business. We did not use any financial instruments for hedging purpose.

## ACQUISITIONS AND DISPOSALS OF SUBSIDIARY

Except for the acquisition of the 100% equity interest in Haode Shangqing on 30 May 2014, the Group had no other acquisition or disposal of subsidiary and associated company during the Period.

## RESTRICTION ON SALES

As of 30 June 2014, we entered into master investment agreements with local government authorities regarding the development of thirteen projects. Under the terms of certain master investment agreements, such as our agreements in regard to Ningxiang, Mianyang and Ganzhou Trade Centers, we are required to maintain a certain portion of the trade center properties, typically 20%-30% in terms of GFA, for self-use or leasing purpose. We believe that such requirement is in line with our overall development plan for these projects. Except for the conditions mentioned above, there is no restriction on sales of the land acquired by the Group.

## HUMAN RESOURCES

As of 30 June 2014, the Group had a workforce of approximately 2,340 people. The number of staff had increased by 17% since 31 December 2013. The total employee benefit expenses for the Period amounted to RMB143.4 million, increased by 57.4% (six months ended 30 June 2013: RMB91.1 million). We actively recruit skilled and qualified personnel in the Chinese local markets, including students newly graduated from universities as well as employees with relevant work experience. For the senior management team and selected management positions, we may also seek to recruit personnel with international experience. The remuneration package of our employees includes salary, bonuses and other cash subsidies. In general, we determine employee salaries based on each employee's qualifications, experience, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our determination on salary raises, bonuses and promotion. As of 30 June 2014, the number of outstanding share options granted by the Company to its directors and employees is 82,320,000 shares.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Period.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, the Company has repurchased a total of 15,106,000 Shares listed on the Stock Exchange with an aggregate amount of HK$40,443,550 from May 2014 to June 2014. As at the date of this announcement, all the above repurchased Shares were cancelled. Details of Shares repurchased during the Period are set out as follows:

| Month of repurchases | No. of Shares | Price paid per Share | | Aggregate consideration paid |
|---|---|---|---|---|
| | | **Highest** | **Lowest** | |
| | | *HK$* | *HK$* | *HK$* |
| May 2014 | 11,376,000 | 3.00 | 2.45 | 31,117,500 |
| June 2014 | 3,730,000 | 2.53 | 2.44 | 9,326,050 |

The Directors believe that repurchases of Shares are in the best interests of the Company and its shareholders and that such repurchases of Shares would lead to an enhancement of the earnings per share.

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

## CORPORATE GOVERNANCE

Following from the below, the Board is of opinion that the Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the Period.

The Company has appointed its new chief executive officer (the "**CEO**"), Mr. Wang Dewen, with effect from 13 May 2014. For details of such changes, please refer to the announcement of the Company dated 14 May 2014. Following the aforementioned change, the roles of chairman of the Company and the CEO are separated in accordance with code provision A.2.1 of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions Conducted by the Directors of Listed Issuers ("**Model Code**") set forth in Appendix 10 of the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors (except for Mr. Wong Choihing whom the Company has not been able to contact or reach since early July 2014. For details, please refer to the section headed "Announcement in respect of Mr. Wong Choihing" below), the Directors (except for Mr. Wong Choihing) have complied with the required standard set out in the Model Code during the Period. Employees who are, or likely to be, in possession of unpublished inside information in relation to the Company or its shares are prohibited from dealing in the shares of the Company during the blackout period from July 26, 2014 to August 25, 2014 (both days inclusive).

## REVIEW OF INTERIM RESULTS

The audit committee of the Company (the "**Audit Committee**") which consists of two independent non-executive Directors, Mr. Lam, Chi Yuen Nelson (being the chairman of the Audit Committee) and Mr. Yang Xianzu, and one non-executive Director, Mr. Yuan Bing, was set up in September 2013 in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and the roles and responsibilities delegated to the Audit Committee by the Board. The primary responsibilities of the Audit Committee are to review the financial information of the Company, to oversee the financial reporting process and internal control system of the Group, to oversee the audit process, to make recommendation on the appointment, re-appointment and removal of external auditor and perform other duties and responsibilities assigned by the Board. The Audit Committee has reviewed the Company's unaudited condensed consolidated interim results and financial report for the six months ended 30 June 2014, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the auditing, internal control and financial reporting matters.

In addition, the independent auditors of the Company, KPMG, have reviewed the unaudited financial report for the six months ended 30 June 2014 in accordance with the 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.

## THE ANNOUNCEMENTS IN RESPECT OF MR. WONG CHOIHING

Reference is made to the announcements of our Company dated 14 July 2014, 17 July 2014 and 23 July 2014 (together, the "**Announcements**"). It was disclosed in the announcement dated 14 July 2014 that the Company had not been able to contact or reach Mr. Wong Choihing ("**Mr. Wong**"), the then Chairman and an executive Director of our Company, for over two weeks (the "**Matter**"). It was further disclosed in the announcement dated 23 July 2014 that, based on the communication with the relevant authorities in the PRC (the "**Authorities**") on 19 July, 2014, the Authorities verbally confirmed to our Company that Mr. Wong is currently assisting the Authorities in providing certain information (the "**New Development**"). In light of the Matter, the Board has adopted the Transitional Arrangements (as defined therein) with effect from 16 July 2014.

Since the issuance of the Announcement dated 23 July 2014, the Company has not been notified or made aware of any further developments relating to Mr. Wong or the New Development. On 22 August 2014, the Board held a meeting to consider the current situation and to review and assess whether the Transitional Arrangements were still adequate and whether other arrangements should be adopted and implemented. Following the meeting, the Board made the resolutions to implement certain new management arrangements and terminate the Transitional Arrangements, which are effective from 25 August 2014. For details, please refer to the announcement of our Company in respect of, among other things, the adoption of the new management arrangements, dated 25 August 2014.

## THE BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Wang Jianli and Mr. Huang Dehong as executive Directors; Mr. Yuan Bing as non-executive Director; and Mr. Yang Xianzu, Mr. Wang Lianzhou and Mr. Lam, Chi Yuen Nelson as independent non-executive Directors.

## PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the website of the Stock Exchange at **www.hkexnews.hk** and the Company's website at **www.hydoo.com.cn**. The 2014 Interim Report will be dispatched to the shareholders of the Company on or about 28 August 2014 and will be available on the above websites in due course.

By order of the Board
**Hydoo International Holding Limited**
**Huang Dehong**
*Executive Director*

Hong Kong, 25 August 2014

*As at the date of this announcement, the executive Directors are Mr. Wang Jianli and Mr. Huang Dehong; the non-executive Director is Mr. Yuan Bing; and the independent non-executive Directors are Mr. Yang Xianzu, Mr. Wang Lianzhou and Mr. Lam, Chi Yuen Nelson.*