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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

ANNUAL RESULTS

The board of directors (the "**Board**") of Hydoo International Holding Limited (the "**Company**") hereby announce the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the financial year ended 31 December 2016 ("**FY2016**" or the "**Year**") with comparative figures for the preceding financial year ended 31 December 2015 ("**FY2015**"), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in Renminbi)

	Note	**2016**	2015
		RMB'000	*RMB'000*
Revenue	2	**2,335,777**	3,166,351
Cost of sales		**(1,049,861)**	(1,532,435)
Gross profit		**1,285,916**	1,633,916
Other income	3	**21,988**	78,394
Selling and distribution expenses		**(149,754)**	(194,541)
Administrative expenses		**(473,240)**	(459,633)
Other operating expenses		**(78,989)**	(8,608)
Profit from operations before fair value gain on investment properties		**605,921**	1,049,528
Fair value gain on investment properties	7	**326,451**	296,543
Profit from operations after fair value gain on investment properties		**932,372**	1,346,071
Share of loss of joint ventures		**(1,492)**	—
Fair value change on embedded derivative component of the convertible notes	10	**(668)**	19,319
Gain on early redemption of convertible notes	10	**14,391**	—
Finance income	4(a)	**8,299**	9,161
Finance costs	4(a)	**(240,439)**	(150,549)
Profit before taxation	4	**712,463**	1,224,002
Income tax	5(a)	**(357,315)**	(626,272)
Profit for the year		**355,148**	597,730
Attributable to:			
Equity shareholders of the Company		**350,280**	556,875
Non-controlling interests		**4,868**	40,855
Profit for the year		**355,148**	597,730
Earnings per share			
Basic (RMB cents)	6	**8.7**	13.9
Diluted (RMB cents)	6	**8.7**	13.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in Renminbi)

	2016	2015
	RMB'000	RMB'000
Profit for the year	**355,148**	597,730
Other comprehensive income for the year (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside the Mainland China	**(51,230)**	(19,492)
Other comprehensive income for the year	**(51,230)**	(19,492)
Total comprehensive income for the year	**303,918**	578,238
Attributable to:		
Equity shareholders of the Company	**299,050**	537,383
Non-controlling interests	**4,868**	40,855
Total comprehensive income for the year	**303,918**	578,238

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

(Expressed in Renminbi)

	Note	**2016**	2015
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		**472,958**	112,331
Investment properties	7	**1,520,800**	778,900
Intangible assets		**2,956**	3,983
Goodwill		**3,631**	3,631
Interest in joint venture		**149,394**	150,386
Other non-current financial assets		**180,131**	111,187
Deferred tax assets		**247,050**	316,049
Prepayment for acquisition of property, plant and equipment		**—**	368,535
Finance lease receivables		**26,672**	6,232
		2,603,592	1,851,234
Current assets			
Inventories		**9,180,960**	9,628,621
Prepaid tax		**105,321**	111,161
Trade and other receivables, prepayments and deposits	8	**1,550,738**	1,393,270
Restricted cash		**1,045,848**	430,638
Cash and cash equivalents		**965,685**	1,688,923
		12,848,552	13,252,613
Current liabilities			
Trade and other payables	9	**4,084,024**	4,277,132
Bank loans and other borrowings		**1,308,053**	938,646
Convertible notes	10	**—**	844,906
Current tax liabilities		**1,066,635**	1,106,310
Deferred income		**860,994**	988,564
		7,319,706	8,155,558
Net current assets		**5,528,846**	5,097,055
Total assets less current liabilities		**8,132,438**	6,948,289

	Note	2016	2015
		RMB'000	RMB'000
Non-current liabilities			
Bank loans and other borrowings		**1,477,510**	1,464,520
Senior notes	11	**1,519,351**	626,894
Corporate bonds		**9,674**	—
Deferred income		**3,804**	3,524
Deferred tax liabilities		**14,815**	14,771
		3,025,154	2,109,709
NET ASSETS		**5,107,284**	4,838,580
Capital and reserves			
Share capital		**31,825**	31,825
Reserves		**4,852,252**	4,604,866
Total equity attributable to equity shareholders of the Company		**4,884,077**	4,636,691
Non-controlling interests		**223,207**	201,889
TOTAL EQUITY		**5,107,284**	4,838,580

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial information relating to the years ended 31 December 2016 and 2015 included in this announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. The financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Significant accounting policies adopted by the group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in joint ventures.

These financial statements are presented in Renminbi ("**RMB**") rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– available-for-sale investments;

– derivative financial instruments; and

– investment properties.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. 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.

2 REVENUE AND SEGMENT REPORTING

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

Revenue 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 revenue during the year are as follows:

	2016	2015
	RMB'000	RMB'000
Sales of properties	**2,226,617**	3,102,829
Rental income	**45,130**	37,743
Property management services	**42,092**	18,409
Others	**21,938**	7,370
	2,335,777	3,166,351

The Group's customer base is diversified and none of the customers of the Group with whom transactions have exceeded 10% of the Group's revenue.

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, 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 year.

3 OTHER INCOME

	2016	2015
	RMB'000	RMB'000
Dividend income	1,308	3,567
Government grants (i)	5,531	67,082
Net gain on disposal of available-for-sale investments	547	2,382
Net gain on disposal of other non-current financial assets	2,000	—
Net gain on disposal of property, plant and equipment	37	30
Fair value gain on derivative financial instrument	9,132	—
Others	3,433	5,333
	21,988	78,394

(i) During the year, the Group transferred certain completed properties held for sale to investment properties (note 7). The related government grants of RMB2,962,000 (2015: RMB59,701,000) previously recorded as deferred income were recognised in profit or loss as other income during the year.

4 PROFIT BEFORE TAXATION

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

(a) Finance income and finance costs

	2016	2015
	RMB'000	RMB'000
Finance income		
Interest income	**(8,299)**	(9,161)
Finance costs		
Interest on bank loans, other borrowings and corporate bonds	**170,653**	140,176
Interest on convertible notes (note 10)	**64,400**	108,638
Interest on senior notes (note 11)	**127,654**	3,825
Less: interest expense capitalised into properties under development *	**(133,876)**	(104,361)
	228,831	148,278
Net foreign exchange loss	**11,608**	2,271
	240,439	150,549

* The borrowing costs have been capitalised at rates ranging from 4.75% - 9.00% per annum (2015: 5.15% - 10.23%).

(b) Staff costs:

	2016	2015
	RMB'000	RMB'000
Contributions to defined contribution retirement plans	**13,070**	16,827
Salaries, wages and other benefits	**275,996**	296,194
Equity settled share-based payments	**(194)**	(336)
	288,872	312,685

(c) Other items:

	2016	2015
	RMB'000	RMB'000
Depreciation and amortisation	**36,282**	31,295
Impairment losses		
– trade and other receivables (note 8)	**7,225**	—
– property, plant and equipment	**7,340**	—
– intangible assets	**613**	—
Write off of deposits	**1,000**	—
Operating lease charges	**57,220**	56,631
Rentals receivable from investment properties	**13,592**	8,067
Accruals for compensations in respect of a sub-lease arrangement (note 9(d))	**43,050**	—
Cost of properties sold (i)	**976,697**	1,467,992

(i) Cost of properties sold is after netting off benefits from government grants of RMB468,759,000 for the year ended 31 December 2016 (2015: RMB303,303,000).

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2016	2015
	RMB'000	RMB'000
Current tax		
PRC Corporate Income Tax ("PRC CIT") (iii)	**164,002**	289,458
PRC LAT (iv)	**124,270**	344,520
	288,272	633,978
Deferred tax		
Origination and reversal of temporary differences	**69,043**	(7,706)
	357,315	626,272

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

(ii) No provision for Hong Kong Profits Tax was made as the Group did not earn any income subject to Hong Kong Profits Tax for the year (2015: Nil).

(iii) PRC 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 Co., Ltd. ("**Ganzhou Trade Centre**") was approved to enjoy a preferential PRC CIT rate of 15% for the years from 2012 to 2020 according to a tax notice issued by the local tax bureau.

In December 2015, Wuzhou Hydoo Commercial and Trade Centre Development Co., Ltd. ("**Wuzhou Trade Centre**") was also approved to enjoy a preferential PRC CIT rate of 15% for the years from 2015 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 in the PRC.

(iv) PRC LAT

PRC 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.

(v) PRC dividend withholding tax

Withholding tax is levied on Hong Kong companies in respect of dividend distributions arising from profit of PRC subsidiaries earned after 1 January 2008 at 5%.

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	2016	2015
	RMB'000	RMB'000
Profit before taxation	**712,463**	1,224,002
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**207,299**	331,755
Tax effect of non-deductible expenses	**4,730**	6,507
Tax effect of non-taxable income	**(327)**	(892)
Tax effect of unused tax losses not recognised	**56,059**	50,509
Utilisation of previously unrecognised tax losses	**(1,287)**	(3,288)
PRC LAT (note 5(a) (iv))	**124,270**	344,520
Tax effect on PRC LAT	**(29,652)**	(77,764)
Tax concessions (note 5(a) (iii))	**(3,777)**	(25,075)
Total income tax	**357,315**	626,272

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB350,280,000 (2015: RMB556,875,000) and the weighted average of 4,014,844,000 ordinary shares (2015: 4,014,844,000 ordinary shares).

(b) Diluted earnings per share

For the year ended 31 December 2016, the effect of deemed issue of shares under the Company's Pre-IPO Share Option Scheme for nil consideration was anti-dilutive.

The calculation of diluted earnings per share for 2015 was based on the profit attributable to equity shareholders of the Company (diluted) of RMB556,875,000 and the weighted average number of ordinary shares of 4,017,138,000 shares, calculated as follows:

(i) Weighted average number of ordinary share (diluted)

	2015
	RMB'000
Weighted average number of ordinary shares at 31 December	4,014,844
Effect of deemed issue of shares under the Company's Pre-IPO Share Option Scheme for nil consideration	2,294
Weighted average number of ordinary shares at 31 December (diluted)	4,017,138

(ii) For the year ended 31 December 2015, the effect of conversion of convertible notes was anti-dilutive.

7 INVESTMENT PROPERTIES

	2016
	RMB'000
At 1 January 2015	**—**
Transferred from inventories	**482,357**
Fair value adjustments	**296,543**
At 31 December 2015 and 1 January 2016	**778,900**
Transferred from inventories	**415,449**
Fair value adjustments	**326,451**
At 31 December 2016	**1,520,800**
Representing	
Valuation - 2016	**1,520,800**
Valuation - 2015	**778,900**
Book value	
At 31 December 2016	**1,520,800**
At 31 December 2015	**778,900**

During the year ended 31 December 2016, the Group transferred certain completed properties held for sale to investment properties when there was an actual change in use from sale to earning rental income purpose. A fair value gain of RMB309,551,000 (2015: RMB277,643,000), and corresponding deferred tax of RMB47,951,000 (2015: RMB58,873,000), upon the transfer had been recognised in profit or loss.

During the year, an additional fair value gain of RMB16,900,000 (2015: RMB18,900,000) and corresponding deferred tax of RMB3,675,000 (2015: RMB4,215,000), have been recognised in profit or loss in respect of the existing investment properties.

8 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2016	2015
	RMB'000	*RMB'000*
Trade and bill receivables (a)	**48,431**	44,948
Less: allowance for doubtful debts (b)	**(7,225)**	—
	41,206	44,948
Prepaid business tax and other taxes	**99,530**	128,048
Deposits, prepayments and other receivables (c)	**1,350,171**	1,183,445
Amount due from a joint venture (d)	**18,874**	—
Finance lease receivables	**40,957**	36,829
	1,550,738	1,393,270

(a) Ageing analysis

As at the end of the reporting period, the ageing analysis of trade and bill receivables (net of allowance for doubtful debts) based on the date the relevant trade and bill receivables recognised, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**32,943**	30,078
1 to 3 months	**2,378**	—
3 to 6 months	**2,125**	2,735
Over 6 months	**3,760**	12,135
	41,206	44,948

Trade and bill receivables are primarily related to proceeds from the sale of properties. Proceeds from the sale of properties are made in lump-sum payments or paid by instalments in accordance with the terms of the corresponding contracts.

(b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016
	RMB'000
At 1 January	—
Impairment loss recognised	7,225
At 31 December	7,225

At 31 December 2016, trade and other receivables of RMB7,225,000 (2015: Nil) were individually determined to be impaired. The individually impaired receivables were related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB7,225,000 (2015: Nil) were recognised.

(c) The balance includes prepayments for leasehold land of RMB486,773,000 (2015: RMB416,852,000).

(d) The balance of amount due from a joint venture is unsecured, interest free and has no fixed repayment terms.

9 TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade and bills payables (a)	**2,343,810**	2,629,878
Receipts in advance (b)	**1,188,327**	1,298,168
Other payables and accruals (c), (d)	**551,887**	349,086
Total	**4,084,024**	4,277,132

(a) Included in trade and other payables are trade creditors with the following ageing analysis as at the end of the reporting period:

	2016	2015
	RMB'000	*RMB'000*
Due within 1 month or on demand	**446,703**	274,578
Due after 1 month but within 3 months	**101,996**	644,849
Due after 3 months but within 6 months	**420,912**	1,088,462
Due after 6 months	**1,374,199**	621,989
	2,343,810	2,629,878

Trade payables mainly represent amounts due to contractors. Payment to contractors is in installments according to progress and agreed milestones. The Group normally retains 2% to 10% as retention money.

At 31 December 2016, included in trade payables are retention payables of RMB31,525,000 (2015: RMB33,133,000), which are expected to be settled after more than one year.

(b) Receipts in advance primarily consisted of deposits and down payments from customers for purchases of the Group's properties. Such proceeds were recorded as current liabilities before the associated sales were recognised. Sale of properties is subsequently recognised to the profit or loss in accordance with the Group's accounting policy.

(c) At 31 December 2016, included in other payables and accruals are deposits of RMB56,531,000 (2015: RMB21,372,000), which are expected to be settled after more than one year. All of the other payables and accrued expenses are expected to be settled within one year.

(d) At 31 December 2016, other payables and accruals included an amount of RMB43,050,000, representing estimated compensations in relation to a sub-lease arrangement. Subsequent to year end, the lessor issued a notice to the Group for termination of the sub-lease arrangement and the Group is in the process of negotiation with the lessor on the compensations in respect of such termination.

10 CONVERTIBLE NOTES

On 23 January 2015, the Company issued convertible notes in an aggregate principal amount of US dollars ("US$") 120 million due 23 January 2020 ("Maturity Date"). The convertible notes bear interest at coupon rate of 7.00% per annum payable semi-annually. Certain subsidiaries of the Company will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Company under the convertible notes.

Unless previously redeemed, repaid, converted or purchased and cancelled, the Company will redeem the convertible notes at 137.48% of its principal amount on the Maturity Date.

The convertible notes were originally to be convertible at the option of the holder into ordinary shares at the initial conversion price of HK$1.956 per share upon issuance and subsequently adjusted to HK$1.67 in 2016.

The convertible notes holder may require the Company to redeem all or some of such convertible notes when (i) the ordinary shares of the Company cease to be listed or admitted to trading or suspended for a period equal to or exceeding 30 consecutive trading days on the Stock Exchange; (ii) there is a change of control, or (iii) the Company fails to meet certain sales targets in either 2015 or 2016.

Also, the convertible notes holder shall have the right to require the Company to redeem all or some of such convertible notes at any time on or after 23 January 2018. If the convertible notes are early redeemed, the Company shall give the convertible notes holder an internal rate of return of 13.0% upon redemption of the convertible notes.

On 11 January 2016, amendments was made on the terms of the convertible notes. The right of the note holder to require the Company to redeem all or some of the convertible notes was amended to at any time on or after 11 January 2016, instead of 23 January 2018.

On 15 January 2016, 31 August 2016 and 20 September 2016, the Company redeemed an aggregate principal amount of US$40 million, US$50 million and US$30 million of the outstanding convertible notes and all the convertible notes were cancelled accordingly. A gain of RMB14,391,000 resulted from the redemption was recorded in profit or loss for the year.

The convertible notes recognised in the consolidated statement of financial position of the Group are analysed as follows:

	Host liability component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
Net proceeds for the issuance of the convertible notes	525,701	210,403	736,104
Interest expenses (i)/(note 4(a))	108,638	—	108,638
Interest expenses paid during the year	(26,208)	—	(26,208)
Change in fair value of derivative component	—	(19,319)	(19,319)
Exchange difference	34,149	11,542	45,691
At 31 December 2015	642,280	202,626	844,906
Interest expenses (i)/(note 4(a))	64,400	—	64,400
Interest expenses paid during the year	(117,962)	—	(117,962)
Change in fair value of derivative component	—	668	668
Redemption of convertible notes	(798,344)	—	(798,344)
Gain on redemption of convertible notes	193,873	(208,264)	(14,391)
Exchange difference	15,753	4,970	20,723
At 31 December 2016	—	—	—

(i) Interest expense

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 22.21% per annum to the liability component.

(ii) Conversion rights exercised

No convertible notes were converted throughout its existing period.

11 Senior notes

	2016 ***RMB'000***	2015 *RMB'000*
At 1 January	**630,614**	—
Net proceeds from notes issued	**826,379**	623,642
Interest expenses (note 4(a))	**127,654**	3,825
Interest paid	**(118,920)**	—
Exchange difference	**75,245**	3,147
At 31 December	**1,540,972**	630,614
Less: Interest payable due within 1 year	**(21,621)**	(3,720)
Non-current portion of senior notes at 31 December	**1,519,351**	626,894

(a) On 15 December 2015, the Company issued a senior note of US$100 million (equivalent to RMB646,261,000) at 99.404% with a coupon rate of 13.75% per annum. The senior note will be due in 2018. The net proceeds from the senior note, after deducting the transaction costs, of US$96,500,000 (equivalent to RMB623,642,000) was received by the Company on 16 December 2015. Interest expense on the senior notes is calculated using the effective interest rate of 15.25% per annum.

(b) On 30 August 2016, the Company issued a senior note of US$60 million (equivalent to RMB400,872,000) at par with a coupon rate of 11% per annum. The senior note will be due in 2019. The net proceeds from the senior note, after deducting the transaction costs, of US$59,720,000 (equivalent to RMB399,002,000) was received by the Company on 30 August 2016. Interest expense on the senior notes is calculated using the effective interest rate of 11.19% per annum. Mr. Wong Choihing, a controlling shareholder of the Company and therefore, a connected person of the Company, provides a personal guarantee in favour the performance of the obligations by the Company.

(c) On 14 September 2016, the Company issued a senior note of US$60 million (equivalent to RMB400,716,000) at 104.81% of the principal amount plus accrued interest with a coupon rate of 13.75% per annum. The senior note will be due in 2018. The net proceeds from the senior note, after including interest in arrear and deducting the transaction costs, of US$63,992,000 (equivalent to RMB427,377,000) was received by the Company on 15 September 2016. Interest expense on the senior note is calculated using the effective interest rate of 12.42% per annum.

12 Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2016	2015
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of Nil (2015: HK1.5 cents) per ordinary share	**—**	50,587

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016	2015
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the following year, of HK1.5 cents (2015: HK6 cents) per ordinary share	**51,470**	192,485

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors (the "**Board**") of Hydoo International Holding Limited ("**Hydoo**", the "**Company**", "**we**", or "**our**"), together with its subsidiaries (the "**Group**"), I hereby present the annual results of the Group for the financial year ended 31 December 2016 ("**FY2016**" or the "**Year**").

FINANCIAL RESULTS

During the Year, the Group's revenue and gross profit reached approximately RMB2,335.8 million and RMB1,285.9 million, respectively (the revenue and gross profit for the financial year ended 31 December 2015 ("**FY2015**"): RMB3,166.4 million and RMB1,633.9 million, respectively). Basic earnings per share for FY2016 were RMB8.7 cents (FY2015: RMB13.9 cents).

MARKET AND OPERATION REVIEW

During the Year, China's Gross Domestic Product ("**GDP**") has increased by 6.7% when comparing to last year. Under the mid- to long-term L-shaped economic trend, the Chinese economy operated within a reasonable range, which was a major symbol of the increasingly significant manifestation of the features of the new norm. However, the international and domestic economic environments remained to be complex. Overcapacity on the supply side remained, while private investment on the demand side declined. The foundation for the stable and sound development of the Chinese economy was not solid.

Faced with the downward pressure of the market environment, the Group upheld the principle of the stabilisation of development and the prevention of risks, strove to make progress whilst maintaining stability, and explored innovation in its business fields to inject momentum to its development.

Adjusting sales strategy and development progress in response to market

"Destocking" was not only one of the key words in the Chinese economy for the Year, but also the focus of the Group's work under the current inventory market. During the Year, in order to achieve destocking, the Group has adopted targeted strategies and flexible pricing mechanisms, reduced area of new construction, carried out production based on market conditions, prudently controlled land reserves, and ensured the safe and reasonable structure of its land reserves.

Meanwhile, with the implementation of "destocking" measures and the encouragement of rational consumption by the central government as well as the loosened monetary policy, the residential property market has manifested a positive development trend. In this situation, the Group closely followed market changes and increased the supply of residential property. Therefore, the proportion of contracted sales of residential property in total contracted sales of the Group increased from 2.0% in FY2015 to 28.2% in FY2016; the proportion of income generated from the sales of residential property in total sales of the Group increased from 1.2% in FY2015 to 10.5% in FY2016. Sales in residential property recorded an encouraging growth.

Significant growth in recurring business income with constant and stable return

Despite weak sales in the Group's trade and logistics center projects caused by the economic environment, the growth in sustainable income is worth-mentioning. During the Year, the Group's property management services income and rental income amounted to RMB42.1 million and RMB45.1 million respectively, represented an increase of 128.6% and 19.6% respectively to that of FY2015. Benefiting from the constant expansion of its property management business and the increase in rental areas, contribution in profit by the Group's recurring business income has increased significantly, which helped us to withstand the risk of periodic market fluctuations and to achieve long-term, stable and sustainable development. The Group will continue to promote other business models that generate recurring income, including O2O integrated trading platform, logistics and warehouse services as well as community O2O business, to form a strong supplement to the Group's traditional business and cultivate new growth area with profitability.

Profit making in the financial sector with a promising beginning of the "traditional business + finance" model

The Group engages in equity investment, industrial fund management, finance leasing, commercial factoring and other businesses in the financial sector. During the Year, our financial business in the field of finance leasing continuously made profits and established a promising start for the Group's "traditional business + finance" model. Meanwhile, the Group successfully set up Shenzhen Qianhai Hydoo Equity Investment and Fund Management Co., Ltd. (深圳前海毅德股權投資基金管理有限公司) and Shenzhen Qianhai Hydoo Commercial Factoring Co., Ltd (深圳前海毅德商業保理有限公司) during the Year to gradually build an all-finance product trading service platform. In addition, the financial sector will subsequently provide necessary financial support for the Group's O2O integrated trading platform, including the provision of professional financial talents, management and operation of online financial platform, and risk control and management.

PROSPECTS

2017 is the year for intensification of supply-side structural reform in China. Looking at the domestic environment, the overall Chinese economy tends to be stable with a more balanced structure. The new economic norm will still be the mainstream. Despite the downward pressure in the Chinese economy, the fundamental of long-term economic prosperity remains unchanged. The recent Central Economic Work Conference stated that in 2017, the supply-side structural reform will be intensified mainly in four aspects: firstly, further promotion of reduction in overcapacity, destocking, deleveraging, cost reduction and strengthening of areas of weakness; secondly, further promotion of agricultural supply-side structural reform; thirdly, strengthening of the real economy; fourthly, promotion of stable and healthy development of the property market.

In respect of destocking, it was pointed out in the Central Economic Work Conference that in order to resolve the overstocking problem of properties in third-to-fourth tier cities, classified regulation shall persist, and policies shall be adopted according to the needs of the specific city and region. Combining destocking and the promotion of population urbanisation, interconnection between infrastructures in third-to-fourth tier cities and large cities will be enhanced. Meanwhile, in the trade and logistics sector, to further promote healthy development of the trade and logistics industry, reduce logistics cost and enhance circulation efficiency, relevant departments of the Chinese government formulated "13th Five-Year Plan – Trade and Logistics Development" (the "**Plan**"), which clearly set out that China will generally form a trade and logistics network with urban and rural collaboration, regional synergy and effective domestic and international connection. The standardisation, informationisation, intensification and internationalisation of trade and logistics will be significantly enhanced. The Plan also proposed the establishment of seven major projects, including the construction of trade and logistics platform, the enhancement in functions of trade and logistics community, and the e-commerce logistics project. These policies will bring enormous opportunities to the development of the Group's trade and logistics centers.

According to the fundamental pre-judgment on the domestic economic environment and the industrial signal released from national policies, the Group will focus on the adoption of the following strategies in 2017: firstly, the traditional main business will be the core. For the destocking of its trade and logistics center projects, the Group will conduct in-depth analysis of its existing advantages and future development trend with reference to the results and problems in 2016, and make good use of local policies and its existing resources. For new available-for-sale projects, the Group will follow its progress plan, focus on important areas to achieve its annual target values. For contracted projects, the Group will follow unified arrangements, control cost and expenses to proceed steadily. For exploration of new projects, the Group will adhere to the principle of prudence and accuracy to guarantee support for its development. Secondly, the Group will promote industrial upgrade through reforms. The Group will think creatively and focus on the sales and commercial management sectors to achieve better results in 2017. In addition, the Group will continue to develop and implement "Yiqilai" (毅起來),

the whole-process trade integrated service e-commerce platform, its business in the financial sector, "Yingtaozhen" (櫻桃陣), smart community service center, and other emerging businesses, and operate well as an urban service operator. The Group will establish an informationised, modernised and technological integrated trade and logistics community through "Internet +", and create an urban smart community to generate profitable new growth areas for the Group.

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 professionalism and wholehearted commitment.

Wang Jianli
Chairman

Hong Kong, 30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Review of FY2016 Performance

Contracted Sales Performance

In FY2016, the Group recorded contracted sales of approximately RMB2,527.2 million and contracted sales area of 503,870 sq.m., representing a decrease of 18.7% and an increase of 3.8%, respectively (FY2015: approximately RMB3,108.6 million and 485,461 sq.m.). During the Year, the Chinese economy experienced a period of weak GDP growth, and the sluggish economic environment presented various degrees of challenges to the Group's operating markets. As a result, the Group's contracted sales were inevitably affected. Contracted sales recorded during the Year were primarily in relation to the pre-sale of properties for projects in Lanzhou, Yulin, Wuzhou and Ganzhou.

Details of contracted sales recorded in FY2016 are shown in the table below:

	For the year ended 31 December					
	2016			2015		
	Contracted sales area	**Average contracted sales price (before deduction of business tax, value added tax and surcharges)**	**Contracted sales amount (before deduction of business tax, value added tax and surcharges)**	Contracted sales area	Average contracted sales price (before deduction of business tax and surcharges)	Contracted sales amount (before deduction of business tax and surcharges)
	(contracted sales area in sq.m., average contracted sales price in RMB per sq.m. and contracted sales amount in thousands of RMB)					
Lanzhou Trade Center						
Wholesale trading market units	80,626	6,995	563,959	78,218	8,046	629,329
Yulin Trade Center						
Wholesale trading market units	72,977	5,166	377,010	712	5,971	4,251
Shopping mall	134	11,791	1,580	1,061	11,847	12,570
Wuzhou Trade Center						
Wholesale trading market units	63,805	5,326	339,800	72,695	5,493	399,348
Shopping mall	—	—	—	1,812	8,214	14,884
Ganzhou Trade Center						
Residence	74,219	4,130	306,498	—	—	—
Wholesale trading market units	3,235	7,737	25,030	5,424	10,256	55,630
Shopping mall	110	10,000	1,100	195	11,744	2,290
Xingning Trade Center						
Wholesale trading market units	47,907	6,034	289,050	177,684	6,282	1,116,170
Bengbu Commercial and Residential Project						
Residence	83,406	3,038	253,370	—	—	—

	For the year ended 31 December					
	2016			2015		
	Contracted sales area	**Average contracted sales price (before deduction of business tax, value added tax and surcharges)**	**Contracted sales amount (before deduction of business tax, value added tax and surcharges)**	Contracted sales area	Average contracted sales price (before deduction of business tax and surcharges)	Contracted sales amount (before deduction of business tax and surcharges)
	(contracted sales area in sq.m., average contracted sales price in RMB per sq.m. and contracted sales amount in thousands of RMB)					
Jining Trade Center						
Residence	33,931	4,432	150,380	14,303	4,315	61,720
Wholesale trading market units	7,977	4,633	36,960	14,529	4,515	65,600
Heze Trade Center						
Wholesale trading market units	24,765	4,731	117,170	42,969	5,439	233,692
Mianyang Trade Center						
Wholesale trading market units	6,519	5,930	38,660	26,543	6,252	165,940
Yantai Trade Center						
Wholesale trading market units	3,559	6,805	24,220	49,268	7,044	347,050
Ningxiang Trade Center						
Serviced apartments	700	3,400	2,380	48	2,917	140
Total	**503,870**	**5,016**	**2,527,167**	**485,461**	**6,403**	**3,108,614**

Land Acquisition and Land Bank

In FY2016, we acquired land-use rights with an aggregate total site area of approximately 203,642 sq.m., which is expected to have an aggregate estimated gross floor area (the "**GFA**") of approximately 243,066 sq.m.. As of 31 December 2016, we had a total land bank of approximately 11 million sq.m., and we were simultaneously developing 14 projects in 9 provinces and autonomous regions in China.

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

	Actual GFA of completed properties *(s.q.m.)*	Estimated GFA of properties under development *(s.q.m.)*	Estimated GFA of properties planned for future development *(s.q.m.)*	Total GFA with land use rights *(s.q.m.)*	Total GFA of properties delivered *(s.q.m.)*	Land bank *(s.q.m.)*
Ganzhou Trade Center	748,439	309,714	2,342,590	3,400,743	556,178	2,844,565
Lanzhou Trade Center	513,794	26,666	1,842,742	2,383,202	137,659	2,245,543
Xingning Trade Center	258,372	73,587	979,400	1,311,359	195,134	1,116,225
Jining Trade Center	716,735	166,104	523,803	1,406,642	476,737	929,905
Bengbu Commercial and Residential Project	—	236,593	651,694	888,287	—	888,287
Wuzhou Trade Center	478,770	—	595,290	1,074,060	220,920	853,140
Heze Trade Center	247,166	54,680	427,787	729,633	112,510	617,123
Yulin Trade Center	350,429	84,616	321,065	756,110	222,594	533,516
Jiamusi Trade Center	—	6,344	483,089	489,433	—	489,433
Yantai Trade Center	141,040	13,172	191,228	345,440	29,002	316,438
Liuzhou Trade Center	—	—	299,960	299,960	—	299,960
Mianyang Trade Center	511,435	—	80,320	591,755	378,619	213,136
Ningxiang Trade Center	381,949	61,518	—	443,467	281,388	162,079
Haode Yinzuo	48,650	—	—	48,650	38,780	9,870
Total	**4,396,779**	**1,032,994**	**8,738,968**	**14,168,741**	**2,649,521**	**11,519,220**

OUR PROJECTS

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. There are two major railways intersecting in Ganzhou, namely 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 3.4 million sq.m. upon full completion. As of 31 December 2016, we had acquired all the land-use rights for this trade center project.

As of 31 December 2016, we had completed the construction of wholesale trading markets and shopping malls. We are constructing a food street, a logistics distribution center, warehouses, a residential area, and supporting buildings and facilities. As part of our future development plan, we are planning to construct a commercial and exhibition center, additional shopping malls, residential areas, warehouses, office buildings and hotels.

Lanzhou Trade Center

Lanzhou Trade Center is located in Yuzhong County, Lanzhou, which is next to the community of Lanzhou College. It is located in the south of Qinling Highway and 312 National Road and the north of 309 National Road, 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. and has an aggregate estimated GFA of approximately 6.0 million sq.m, which is expected to be developed at least in two phases. As of 31 December 2016, we had acquired the land-use rights encompassing a total site area of 1,372,963 sq.m., with a total GFA of 2,383,202 sq.m. upon completion.

As of 31 December 2016, for this trade center project, we had completed the construction of wholesale trading markets and a commercial pedestrian street. We are constructing additional wholesale trading markets. As part of our future development plan, we are planning to construct shopping malls, an office building, warehouses and additional wholesale trading markets.

Xingning Trade Center

Xingning Trade Center is located at the northeast of the Xingning train station in Diaofang. Xingning is a city governed by Meizhou city, situated in the northeast Guangdong province near Jiangxi and Fujian provinces, and 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. and has an aggregate estimated GFA of approximately 2.0 million sq.m., which is expected to be developed in three phases. As of 31 December 2016, we had acquired the land-use rights encompassing a total site area of 804,963 sq.m. with a total GFA of approximately 1,311,359 sq.m. upon completion of development.

As of 31 December 2016, for this trade center project, we had completed the construction of wholesale trading markets, serviced apartments and certain supporting buildings and facilities, and were constructing shopping malls. As part of our future development plan, we are planning to construct a residential area, an office building, a warehouse, additional wholesale trading markets and shopping malls.

Jining Trade Center

Jining Trade Center is located approximately six 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 ten kilometers of the Jining train station and 30 kilometers of the 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 31 December 2016, 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 1,406,642 sq.m. upon full completion of Phase I and Phase II.

As of 31 December 2016, for this trade center project, we had completed the construction of wholesale trading markets, a shopping mall and a residential area, and were constructing a commercial center, a hotel, an office building and a commercial and exhibition center. As part of our future development plan, we are planning to construct warehouses, serviced apartments, a residential area and office buildings.

Bengbu Commercial and Residential Project

Bengbu Commercial and Residential Project is located in Huaiyuan County, Bengbu, northeast of Anhui Province. It is located west of Beijing-Shanghai Railway and Beijing-Shanghai High-speed Railway, at the junction of National Road 206, Provincial Highway 307, Provincial Highway 225 and other highways. It is approximately 25 kilometers, 30 kilometers and 120 kilometers from downtown Bengbu, the Bengbu railway station and the airport of Hefei, respectively.

Bengbu Commercial and Residential Project covers a net land area of approximately 363,737 sq.m., which is estimated to consist of at least two phases, and is estimated to have a total GFA of approximately 888,287 sq.m. upon full completion. As of 31 December 2016, we had acquired all the land-use rights for this commercial and residential project.

As of 31 December 2016, for this commercial and residential project, we were constructing a residential area and certain supporting buildings and facilities. As part of our future development plan, we are planning to develop a residential area, a commercial center, a hotel and certain supporting buildings and facilities.

Wuzhou Trade Center

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

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 31 December 2016, 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 1,074,060 sq.m. upon full completion of Phase I development.

As of 31 December 2016, for this trade center project, we had completed the construction of wholesale trading markets, shopping malls, a commercial and exhibition center, and certain supporting buildings and facilities. As part of our future development plan, we are planning to construct a residential area, an office building, serviced apartments, a hotel and additional shopping malls.

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 31 December 2016, we had acquired land-use rights for all of Phase I and a portion of Phase II, encompassing a total site area of 587,239 sq.m. with a total planned GFA of approximately 729,633 sq.m. upon completion of the Phase I and Phase II development.

As of 31 December 2016, for this trade center project, we had completed the construction of wholesale trading markets and certain supporting buildings and facilities, and were constructing a shopping mall. As part of our future development plan, we are planning to construct office buildings, serviced apartments, a residential area, additional shopping malls and wholesale trading markets.

Yulin Trade Center

Yulin Trade Center is located approximately two 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 three kilometers from Guang-Kun Freeway and is within ten kilometers of Yulin train station.

Yulin Trade Center is planned to cover a site area of approximately 1.2 million sq.m. and has an aggregate estimated GFA of approximately 2.0 million sq.m., which is expected to be developed in several phases. As of 31 December 2016, we had acquired land-use rights for all of Phase I, Phase II and a portion of Phase III, encompassing a total site area of 504,889 sq.m. with a total planned GFA of approximately 756,110 sq.m. upon full completion of Phase I, Phase II and Phase III development.

As of 31 December 2016, for this trade center project, we had completed the construction of wholesale trading markets and shopping malls, and were constructing a commercial and exhibition center and additional wholesale trading markets. As part of our future development plan, we are planning to construct a hotel, office buildings and additional wholesale trading markets.

Jiamusi Trade Center

Jiamusi Trade Center is located in Jiamusi City, the core city and transportation hub in eastern Heilongjiang. It is located approximately ten kilometers west of Jiamusi's city hall, in the north of Youyi Road (the urban main road), and one kilometer from Ha-Tong Freeway.

Jiamusi Trade Center is estimated 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 several phases. As of 31 December 2016, we had acquired land use rights for Phase I development, encompassing a total site area of 484,708 sq.m., with a total planned GFA of 489,433 sq.m..

As of 31 December 2016, we were constructing a commercial and exhibition center. As part of our future development plan, we are planning to construct wholesale trading markets, shopping malls, a hotel and certain supporting buildings and facilities.

Yantai Trade Center

Yantai Trade Center is located in southern Zhifu District of Yantai City, west of Shenhai Highway, nine 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. and has an aggregate estimated GFA of approximately 2.4 million sq.m., which is expected to be developed in several phases. As of 31 December 2016, we had acquired land-use rights for all of Phase I, encompassing a total site area of 160,056 sq.m. with a total planned GFA of 345,440 sq.m. upon completion.

As of 31 December 2016, for this trade center project we had completed the construction of wholesale trading markets, we were constructing a commercial and exhibition center, certain supporting buildings and facilities. As part of our future development plan, we are planning to construct shopping malls, an office building, a hotel and serviced apartments.

Liuzhou Trade Center

Liuzhou Trade Center is located in Liujiang Town, Liuzhou City, Guangxi Zhuang Autonomous Region. It is located in the east of Xianggui railway and in the south of Liujiang Road.

Liuzhou Trade Center is estimated to cover a site area of approximately 1.2 million sq.m. and has an aggregate estimated GFA of approximately 1.5 million sq.m., which is expected to be developed in several phases. As of 31 December 2016, we had acquired the land-use rights for all of Phase I, encompassing a total site area of 259,577 sq.m., with a total planned GFA of 299,960 sq.m..

As part of our future development plan, we are planning to construct wholesale trading markets, shopping malls, office buildings and certain supporting buildings and facilities.

Mianyang Trade Center

Mianyang 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 s.q.m. which is expected to be developed in several phases, and is estimated to have a total GFA of approximately 591,755 sq.m. upon full completion. As of 31 December 2016, we had acquired all the land-use rights for this trade center project.

As of 31 December 2016, for this trade center project, we had completed the construction of wholesale trading markets, and certain supporting buildings and facilities. As part of our future development plan, we are planning to construct additional wholesale trading markets and a hotel.

Ningxiang Trade Center

Ningxiang Trade Center is located approximately three kilometers west of the city center of Ningxiang, a county in Changsha, which is 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 several phases. As of 31 December 2016, we had acquired land-use rights for all of Phase I, encompassing a total site area of 301,387 sq.m. with a total planned GFA of 443,467 sq.m. upon full completion of Phase I.

As of 31 December 2016, for this trade center project, we had 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 were constructing a hotel.

FINANCIAL REVIEW

Revenue

Revenue decreased by RMB830.6 million, or 26.2%, from approximately RMB3,166.4 million for FY2015 to RMB2,335.8 million for FY2016. This decrease was primarily caused by a decrease in revenue from the sales of properties. The following table sets forth our revenue from the sales of properties, rental income, property management services and others during the stated periods:

	For the year ended 31 December			
	2016		2015	
	(RMB'000)	*%*	*(RMB'000)*	*%*
Sales of properties	**2,226,617**	**95.3%**	3,102,829	98.0%
Rental income	**45,130**	**1.9%**	37,743	1.2%
Property management services	**42,092**	**1.8%**	18,409	0.6%
Others	**21,938**	**1.0%**	7,370	0.2%
Total	**2,335,777**	**100.0%**	3,166,351	100.0%

Sales of Properties

Revenue from the sales of properties decreased by RMB876.2 million, or 28.2%, from approximately RMB3,102.8 million for FY2015 to RMB2,226.6 million for FY2016. The decrease of the sales of properties was in line with the decrease in the GFA of properties sold, which decreased by 97,481 sq.m., or 19.4%, from 491,304 sq.m. for FY2015 to 395,823 sq.m. for FY2016. The decrease of the GFA of properties sold was mainly attributable to the slow-down of the Chinese economy and the decrease in contracted sales and delivery of completed properties during the Year. Our revenue from the sales of properties for FY2016 was primarily derived from the sales of wholesale trading market units at our Lanzhou Trade Center, Wuzhou Trade Center and Xingning Trade Center.

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

	For the year ended 31 December					
	2016			2015		
	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)					
Lanzhou Trade Center						
Wholesale trading market units	**89,342**	**7,447**	**665,306**	48,316	7,321	353,718
Subtotal	**89,342**	**7,447**	**665,306**	48,316	7,321	353,718
Wuzhou Trade Center						
Wholesale trading market units	**75,633**	**5,089**	**384,881**	135,355	5,179	700,948
Shopping mall	**—**	**—**	**—**	9,932	7,890	78,365
Subtotal	**75,633**	**5,089**	**384,881**	145,287	5,364	779,313
Xingning Trade Center						
Wholesale trading market units	**54,000**	**5,619**	**303,452**	141,134	5,919	835,423
Subtotal	**54,000**	**5,619**	**303,452**	141,134	5,919	835,423
Jining Trade Center						
Residence	**55,276**	**4,198**	**232,065**	—	—	—
Wholesale trading market units	**7,938**	**4,372**	**34,701**	17,864	4,386	78,357
Subtotal	**63,214**	**4,220**	**266,766**	17,864	4,386	78,357
Yulin Trade Center						
Wholesale trading market units	**46,352**	**4,823**	**223,553**	2,765	5,368	14,842
Shopping mall	**172**	**11,076**	**1,905**	2,268	11,386	25,824
Subtotal	**46,524**	**4,846**	**225,458**	5,033	8,080	40,666
Yantai Trade Center						
Wholesale trading market units	**29,002**	**6,532**	**189,428**	—	—	—
Subtotal	**29,002**	**6,532**	**189,428**	—	—	—

	For the year ended 31 December					
	2016			2015		
	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)					
Heze Trade Center						
Wholesale trading market units	**23,422**	**4,617**	**108,133**	41,106	5,360	220,321
Subtotal	**23,422**	**4,617**	**108,133**	41,106	5,360	220,321
Mianyang Trade Center						
Wholesale trading market units	**13,719**	**5,909**	**81,059**	29,530	6,490	191,664
Subtotal	**13,719**	**5,909**	**81,059**	29,530	6,490	191,664
Ganzhou Trade Center						
Wholesale trading market units	**—**	**—**	**—**	39,735	8,319	330,535
Shopping mall	**—**	**—**	**—**	22,826	11,819	269,775
Subtotal	**—**	**—**	**—**	62,561	9,596	600,310
Ningxiang Trade Center						
Serviced apartments	**967**	**2,207**	**2,134**	—	—	—
Subtotal	**967**	**2,207**	**2,134**	—	—	—
Other Properties						
Haode Yinzuo	**—**	**—**	**—**	473	6,463	3,057
Subtotal	**—**	**—**	**—**	473	6,463	3,057
Total	**395,823**	**5,625**	**2,226,617**	491,304	6,315	3,102,829

Rental Income

Revenue from rental income increased by RMB7.4 million, or 19.6%, from RMB37.7 million for FY2015 to RMB45.1 million for FY2016. The increase was primarily due to the increase in leasing area.

Property Management Services

Revenue from property management services increased by RMB23.7 million, from RMB18.4 million for FY2015 to RMB42.1 million for FY2016. This increase primarily reflected the continued expansion of our property management portfolio.

Cost of Sales

Cost of sales decreased by RMB482.5 million, or 31.5%, from RMB1,532.4 million for FY2015 to RMB1,049.9 million for FY2016, primarily reflecting decrease in GFA sold. Apart from this, our government grants credited to cost of sales increased by RMB165.5 million, or 54.6%, from RMB303.3 million for FY2015 to RMB468.8 million for FY2016.

Gross Profit and Margin

As a result of the foregoing, gross profit decreased by RMB348.0 million, or 21.3%, from RMB1,633.9 million for FY2015 to RMB1,285.9 million for FY2016. Our gross profit margin increased from 51.6% for FY2015 to 55.1% for FY2016. The increase in gross profit margin was mainly due to the increase in our government grants credited to cost of sales.

Other Income

Other income decreased by RMB56.4 million, or 72.0%, from RMB78.4 million for FY2015 to RMB22.0 million for FY2016. The decrease was mainly due to that the government grants in relation to investment properties of RMB3.0 million (FY2015: RMB59.7 million) previously recorded as deferred income were recognised in profit or loss as other income during the Year.

Selling and Distribution Expenses

Selling and distribution expenses decreased by RMB44.7 million, or 23.0%, from RMB194.5 million for FY2015 to RMB149.8 million for FY2016. The decrease primarily reflected a decrease in the pre-sale of properties in FY2016.

Administrative and Other Operating Expenses

Administrative and other operating expenses increased by RMB84.0 million, or 17.9%, from RMB468.2 million for FY2015 to RMB552.2 million for FY2016. The increase primarily reflected the increase in impairment losses, donation and tax expenses during the Year. Apart from this, accruals of RMB43.1 million (FY2015: Nil) was made for the compensations on a sub-lease arrangement.

Fair Value Gain on Investment Properties

In FY2016, the Group transferred certain completed properties held for sale to investment properties, since there was a change in use from sale to earning rental income. The Group's investment properties carried at fair value as of 31 December 2016 were valued using the income capitalisation method by Savills Valuation and Professional Services Limited, an independent firm of surveyors. For FY2016, the Group recorded a fair value gain of RMB326.5 million (FY2015: RMB296.5 million).

Finance Income

Our finance income decreased by RMB0.9 million, from RMB9.2 million for FY2015 to RMB8.3 million for FY2016. The decrease reflected a decrease in interest income from our bank deposit in FY2016.

Finance Costs

Our finance costs increased by RMB89.9 million, or 59.7%, from RMB150.5 million for FY2015 to RMB240.4 million for FY2016. The increase was primarily due to the finance costs of the notes issued at the year end of FY2015 (the "**Notes**") and the notes issued in FY2016.

Income Tax

Our income tax expense decreased by RMB269.0 million, or 43.0%, from RMB626.3 million for FY2015 to RMB357.3 million for FY2016. Such decrease was in line with the decrease in revenue during the Year.

Profit for the Year and Profit Attributable to Equity Shareholders of the Company

As a result of the foregoing, our profit decreased by RMB242.6 million, or 40.6%, from RMB597.7 million for FY2015 to RMB355.1 million for FY2016. Our profit attributable to equity shareholders of the Company decreased by RMB206.6 million, or 37.1%, from RMB556.9 million for FY2015 to RMB350.3 million for FY2016.

Restricted Cash

Restricted cash amounted to RMB1,045.8 million as of 31 December 2016, compared to RMB430.6 million as of 31 December 2015. As of 31 December 2016, the restricted cash was pledged to banks for certain mortgage facilities granted to purchasers of the Group's properties with a carrying amount of RMB199.3 million (31 December 2015: RMB224.4 million), pledged for bank loans granted to the Group with a carrying amount of RMB574.7 million (31 December 2015: RMB206.2 million), and pledged for bills payables granted to the Group with a carrying amount of RMB271.8 million (31 December 2015: Nil).

Liquidity and Capital Resources

Our primary uses of cash are to pay for the construction costs and land acquisition costs, fund working capital, service our indebtedness, purchase property, plant and equipment for our own use, and other regular business operation needs. 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 lenders and proceeds from the issuance of overseas notes.

Bank Loans and Other Borrowings

The following table sets forth our outstanding borrowings as of the dates indicated.

	As of 31 December *(RMB'000)*	
	2016	2015
Current		
Secured		
– short-term bank loans and other borrowings	**303,773**	309,366
– current portion of non-current bank loans and other borrowings	**1,004,280**	629,280
Subtotal	**1,308,053**	938,646
Non-current		
Secured		
– repayable after 1 year but within 2 years	**1,196,660**	233,260
– repayable after 2 years but within 5 years	**280,850**	1,231,260
Subtotal	**1,477,510**	1,464,520
Total	**2,785,563**	2,403,166

Bank loans and other borrowings bear interest rates ranging from 2.12% to 9.0% per annum for FY2016 (FY2015: 2.12% to 10.23% per annum) and are secured by the following assets:

	As of 31 December (RMB'000)	
	2016	2015
Properties under development for sale	**1,370,392**	881,683
Completed properties held for sale	**1,035,441**	1,146,723
Properties held for future development for sale	**651,499**	687,252
Restricted cash	**574,680**	206,190
Property, plant and equipment	**377,111**	—
Investment properties	**41,900**	179,500
Prepayment for acquisition of property, plant and equipment	**—**	368,535
Total	**4,051,023**	3,469,883

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 31 December 2016, our maximum amount of guarantees provided to banks for mortgage facilities granted to our customers amounted to RMB2,881.8 million (FY2015: RMB2,818.9 million).

Commitments

(a) Capital commitments outstanding as at 31 December 2016 contracted but not provided for in the financial statements were as follows:

	As of 31 December (RMB'000)	
	2016	2015
Construction and development contracts	**1,111,114**	2,146,456
Land agreements	**240,550**	228,770
Total	**1,351,664**	2,375,226

(b) As at 31 December 2016, the total future minimum lease payments under non-cancellable operating lease are payables as follows:

	As of 31 December (RMB'000)	
	2016	2015
Within 1 year	**13,728**	57,441
After 1 year but within 2 years	**10,250**	51,828
After 2 years but within 5 years	**28,926**	104,352
After 5 years	**37,355**	47,000
Total	**90,259**	260,621

We leased a number of building facilities under operating leases. The leases typically run for an initial period of 1 to 10 years, with an option to renew the lease after that date, at which time all terms are renegotiated. None of the leases includes contingent rentals.

(c) As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	As of 31 December (RMB'000)	
	2016	2015
Within 1 year	**37,043**	59,830
After 1 year but within 2 years	**32,956**	57,277
After 2 years but within 5 years	**72,219**	134,572
After 5 years	**47,662**	93,830
Total	**189,880**	345,509

The Group leased out a number of properties under operating leases. The leases typically run for an initial period of 2 to 15 years. None of the leases includes contingent rentals.

Key Financial Ratios

The following table sets out our current ratios, gearing ratios and net gearing ratios as of the dates indicated.

	As of 31 December	
	2016	2015
Current ratio(1)	**1.76**	1.62
Gearing ratio(2)	**27.9%**	25.7%
Net gearing ratio(3)	**45.1%**	36.3%

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 the Group's total interest bearing borrowings as of the respective reporting period (includes bank loans and other borrowings, corporate bonds, convertible notes and senior notes) divided by total assets as of the end of the respective reporting period and multiplying by 100%.

(3) Our net gearing ratio is calculated by the Group's net debt (aggregated bank loans and other borrowings, corporate bonds, convertible notes and senior notes, net of cash and cash equivalents and restricted cash) divided by the total equity of the Group as of the end of the respective reporting period and multiplying by 100%.

Foreign Exchange Exposure

The Group primarily operates its business in the PRC. The currency in which the Group denominates and settles substantially all of its transactions is Renminbi. Other than certain overseas bank deposits, interests in joint ventures, the Notes and the notes issued in FY2016 denominated in foreign currencies, the Group does not have any material exposure directly due to foreign exchange fluctuations. The Group maintains a conservative approach on foreign exchange exposure management, and manages and reviews its exposure to foreign exchange fluctuations on a regular basis. At times of exchange rate uncertainty or volatility and when appropriate, hedging instruments including swaps and forwards will be used in the management of exposure to foreign exchange fluctuations. In May 2016, the Group entered into a US$100 million currency option agreement and will continue to seek foreign exchange hedging instruments at a reasonable cost to manage foreign exchange risk more effectively.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

The Group had no acquisition and disposal of subsidiaries, associated companies and joint ventures during FY2016.

Restriction on Sales

As of 31 December 2016, we were simultaneously developing 14 trade center projects in 9 provinces and autonomous regions in China. Under the terms of certain master investment agreements with local government authorities regarding the development, such as our agreements with regards to trade centers in Ningxiang, Mianyang, Ganzhou and Liuzhou, we are required to maintain certain portions 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 at 31 December 2016, the Group had a workforce of 1,786 people (FY2015: approximately 2,360 people). The number of staff had decreased by 24.3% since 31 December 2015. During FY2016, the total employee benefit expenses amounted to RMB288.9 million, decreased by 7.6% (FY2015: RMB312.7 million). We actively recruit skilled and qualified personnel in the Chinese local markets, including students graduated from universities as well as personnel with relevant work experience. For the senior management team and selected management positions, we 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 determinations on salary raises, bonuses and promotion. As at 31 December 2016, the number of outstanding share options granted by the Company to its directors (the "**Directors**") and employees is 65,095,000 shares.

FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for FY2016.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 May 2017 to 15 May 2017, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the Company's forthcoming annual general meeting ("**AGM**"), all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 9 May 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this announcement, the Company has maintained the public float of its issued shares as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Year, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares listed on the Stock Exchange.

CORPORATE GOVERNANCE

The Board is of the opinion that the Company had complied with the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules during the Year.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions Conducted by the Directors of Listed Issuers (the "**Model Code**") set forth in Appendix 10 of the Listing Rules as the code of conduct of the Company for Directors' securities transactions. Having made specific enquiry to all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code during the Year. 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 black-out period.

AUDIT COMMITTEE

The Company established the Audit Committee on 27 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 CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules and the roles and responsibilities delegated to the Audit Committee by the Board. The revised terms of reference has been adopted by the Board on 29 December 2015 to comply with the new CG Code which became effective on 1 January 2016. The Audit Committee consists of two independent non-executive Directors and one non-executive Director. The three members are Mr. Lam Chi Yuen Nelson, the chairman of the Audit Committee and an independent non-executive Director, Mr. Zhao Lihua, an independent non-executive Director, and Mr. Yuan Bing, a non-executive Director. The primary duties of the Audit Committee are to review the financial information of the Company, to oversee the financial reporting process, risk management and internal control systems of the Group, to oversee the audit process, to make recommendation on the appointment, re-appointment and removal of external auditor and to perform other duties and responsibilities as assigned by the Board.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 27 September 2013 with written terms of reference in compliance with the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules and the roles and the responsibilities delegated to the Remuneration Committee by the Board. The Remuneration Committee comprises two independent non-executive Directors and one executive Director. The three members are Mr. Wang Lianzhou, the chairman of the Remuneration Committee and an independent non-executive Director, Mr. Lam Chi Yuen Nelson, an independent non-executive Director, and Mr. Wang Jianli, an executive Director. The primary duties of the Remuneration Committee are to make recommendations to the policy and structure of the remuneration for Directors and senior management and to review and approve the compensation payable to Directors and members of senior management.

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance. The remuneration package includes basic salary, performance and/or discretional bonus, participation in the pre-IPO share option scheme ratified and approved by the Company on 20 March 2013 (the "**Pre-IPO Share Option Scheme**") and other benefits. Remuneration of the non-executive Director includes mainly the Director's fee, which is a matter for the Board to decide by reference to the duties and responsibilities of the non-executive Director. Remuneration of the independent non-executive Directors includes the Director's fee which is determined by the Board based on the duties and responsibilities of independent non-executive Directors and their participation in the Pre-IPO Share Option Scheme. Remuneration package of all Directors and members of senior management of the Company has been reviewed and approved by the Remuneration Committee.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 27 September 2013 with written terms of reference in compliance with the requirements of the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules and the roles and the responsibilities delegated to the Nomination Committee by the Board. The Nomination Committee comprises two independent non-executive Directors and one executive Director. The three members are Mr. Zhao Lihua, the chairman of the Nomination Committee and an independent non-executive Director, Mr. Wang Lianzhou, an independent non-executive Director, and Mr. Wang Jianli, an executive Director. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and make recommendations to the Board on the appointment and removal of Directors. In the nomination procedures, the Nomination Committee makes reference to criteria including candidates' reputation, integrity, accomplishment, experience and professional and educational background.

CONNECTED TRANSACTION

The Board confirmed that, during FY2016, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this announcement pursuant to the Listing Rules.

REVIEW OF ANNUAL RESULTS

The Company's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee, which opines that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made. The Audit Committee is satisfied with their review of the remuneration and the independence of the auditors, KPMG, and recommended the Board to re-appoint KPMG as the Company's auditors for the year of 2017, which is subject to the approval of the Shareholders at the AGM.

SCOPE OF WORK OF KPMG

The financial figures as set forth in this announcement have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KPMG.

ANNUAL GENERAL MEETING

The AGM will be held on 15 May 2017. A notice convening the AGM will be published and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This annual 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 annual report of the Company for the year ended 31 December 2016 will be available on the above websites on or about 7 April 2017 and will be dispatched to Shareholders on or about 10 April 2017.

By order of the Board
Hydoo International Holding Limited
Wang Jianli
Chairman

Hong Kong, 30 March 2017

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