# SOUTH WEST ECO DEVELOPMENT LIMITED
# 西南環保發展有限公司

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

**(Stock Code: 8291)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*This announcement, for which the directors (the "Directors") of South West Eco Development Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board of Directors (the ''Board'') of South West Eco Development Limited (the ''Company'') is pleased to announce the following audited consolidated results of the Company and its subsidiaries (the ''Group'') for the year ended 31 December 2012 together with the comparative figures for the preceding year ended 31 December 2011.

**Consolidated Statement of Comprehensive Income**
For the year ended 31 December 2012

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| **Revenue** | 5 | **410,273** | 328,436 |
| Cost of sales | | **(258,677)** | (197,074) |
| **Gross profit** | | **151,596** | 131,362 |
| Other income | 6 | **2,943** | 7,865 |
| Gain on changes in fair value of investment properties | | **61,712** | 46,524 |
| Administrative expenses | | **(54,878)** | (42,133) |
| Selling expenses | | **(9,095)** | (9,024) |
| **Profit before income tax** | 8 | **152,278** | 134,594 |
| Income tax expense | 9 | **(63,949)** | (56,300) |
| **Profit for the year** | | **88,329** | 78,294 |
| **Other comprehensive income** | | | |
| Exchange gain on translation of financial statements of foreign operations | | **4,877** | 20,364 |
| Revaluation surplus upon transfer of owner-occupied properties to investment properties | | **—** | 3,701 |
| Deferred tax liabilities arising on revaluation of properties | | **—** | (611) |
| **Other comprehensive income for the year** | | **4,877** | 23,454 |
| **Total comprehensive income for the year** | | **93,206** | 101,748 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **79,177** | 70,373 |
| Non-controlling interests | | **9,152** | 7,921 |
| | | **88,329** | 78,294 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **83,496** | 91,665 |
| Non-controlling interests | | **9,710** | 10,083 |
| | | **93,206** | 101,748 |
| **Earnings per share for profit attributable to the owners of the Company** | 11 | | |
| – Basic (HK cents) | | **34.6** | 31.3 |
| – Diluted (HK cents) | | **34.6** | 31.3 |

**Consolidated Statement of Financial Position**
As at 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **9,286** | 10,387 |
| Interests in leasehold land | | **429** | 439 |
| Investment properties | 12 | **789,599** | 715,092 |
| Available-for-sale financial assets | 13 | **7,735** | 7,537 |
| Deferred tax assets | | **—** | 4,840 |
| | | **807,049** | 738,295 |
| **Current assets** | | | |
| Inventories of properties | 14 | **305,209** | 354,130 |
| Trade receivables | 15 | **1,768** | 534 |
| Deposits, prepayments and other receivables | 16 | **22,106** | 29,552 |
| Amount due from a related party | | **—** | 35 |
| Amounts due from shareholders | | **—** | 38 |
| Tax prepaid | | **10,588** | — |
| Cash and cash equivalents | | **133,401** | 138,613 |
| | | **473,072** | 522,902 |
| **Current liabilities** | | | |
| Trade payables | 17 | **17,622** | 10,355 |
| Dividend payables | | **—** | 4,223 |
| Accruals, deposits received and other payables | 18 | **78,329** | 63,387 |
| Advances received from the pre-sale of properties under development and properties held for sale | | **209,219** | 277,496 |
| Amounts due to directors | | **—** | 8,564 |
| Interest-bearing borrowings | 19 | **53,616** | 105,492 |
| Taxation liabilities | | **12,228** | 41,342 |
| | | **371,014** | 510,859 |
| **Net current assets** | | **102,058** | 12,043 |
| **Total assets less current liabilities** | | **909,107** | 750,338 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 19 | **43,003** | 48,152 |
| Deferred tax liabilities | | **185,332** | 166,118 |
| | | **228,335** | 214,270 |
| **Net assets** | | **680,772** | 536,068 |
| **EQUITY** | | | |
| Share capital | | **30,000** | — |
| Proposed final dividend | 10 | **12,000** | — |
| Other reserves | 20 | **573,183** | 480,066 |
| **Equity attributable to the Company's owners** | | **615,183** | 480,066 |
| **Non-controlling interests** | | **65,589** | 56,002 |
| **Total equity** | | **680,772** | 536,068 |

## Consolidated Statement of Changes in Equity

| | Equity attributable to the owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium* HK$'000 | Statutory reserve* HK$'000 | Exchange reserve* HK$'000 | Capital reserve* HK$'000 | Revaluation reserve* HK$'000 | Proposed final dividend HK$'000 | Retained earnings* HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **As at 1 January 2011** | — | — | 14,991 | 21,685 | 25,867 | — | — | 325,682 | 388,225 | 46,699 | 434,924 |
| Arising from deemed acquisition of additional interest in a subsidiary | — | — | — | — | 176 | — | — | — | 176 | (176) | — |
| Dividend to other shareholders | — | — | — | — | — | — | — | — | — | (604) | (604) |
| **Transactions with owners** | — | — | — | — | 176 | — | — | — | 176 | (780) | (604) |
| Profit for the year | — | — | — | — | — | — | — | 70,373 | 70,373 | 7,921 | 78,294 |
| Other comprehensive income | | | | | | | | | | | |
| – Exchange gain on translation of financial statements of foreign operations | — | — | — | 18,202 | — | — | — | — | 18,202 | 2,162 | 20,364 |
| – Revaluation surplus upon transfer of owner-occupied properties to investment properties | — | — | — | — | — | 3,701 | — | — | 3,701 | — | 3,701 |
| – Deferred tax liabilities arising on revaluation of properties | — | — | — | — | — | (611) | — | — | (611) | — | (611) |
| **Total comprehensive income for the year** | — | — | — | 18,202 | — | 3,090 | — | 70,373 | 91,665 | 10,083 | 101,748 |
| Transfer between reserves | — | — | 2,740 | — | — | — | — | (2,740) | — | — | — |
| **As at 31 December 2011 and 1 January 2012** | — | — | 17,731 | 39,887 | 26,043 | 3,090 | — | 393,315 | 480,066 | 56,002 | 536,068 |
| Arising from Reorganisation | 10,000 | — | — | — | (10,000) | — | — | — | — | — | — |
| Arising from loan capitalisation | — | — | — | — | 7,471 | — | — | — | 7,471 | — | 7,471 |
| Share issue expenses | — | (5,350) | — | — | — | — | — | — | (5,350) | — | (5,350) |
| Share capitalisation | 12,500 | (12,500) | — | — | — | — | — | — | — | — | — |
| Issuance of ordinary shares in connection with the listing | 7,500 | 42,000 | — | — | — | — | — | — | 49,500 | — | 49,500 |
| Dividend to other shareholders | — | — | — | — | — | — | — | — | — | (123) | (123) |
| **Transactions with owners** | 30,000 | 24,150 | — | — | (2,529) | — | — | — | 51,621 | (123) | 51,498 |
| Profit for the year | — | — | — | — | — | — | — | 79,177 | 79,177 | 9,152 | 88,329 |
| Other comprehensive income | | | | | | | | | | | |
| – Exchange gain on translation of financial statements of foreign operations | — | — | — | 4,319 | — | — | — | — | 4,319 | 558 | 4,877 |
| **Total comprehensive income for the year** | — | — | — | 4,319 | — | — | — | 79,177 | 83,496 | 9,710 | 93,206 |
| Transfer between reserves | — | — | 14,701 | — | — | — | — | (14,701) | — | — | — |
| Proposed final dividend | — | — | — | — | — | — | 12,000 | (12,000) | — | — | — |
| **As at 31 December 2012** | 30,000 | 24,150 | 32,432 | 44,206 | 23,514 | 3,090 | 12,000 | 445,791 | 615,183 | 65,589 | 680,772 |

* The total of these balances represented "other reserves" in the consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 1. GENERAL INFORMATION

South West Eco Development Limited (the "Company") was incorporated in the Cayman Islands on 18 February 2011 as an exempted company with limited liability under Companies Law, Cap 22 of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands and its principal place of business in Hong Kong is located at Office No. 3517, 35th Floor, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong. The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 14 December 2012 (the "Listing").

The principal activity of the Company is investment holding. The Group is principally engaged in property development, property leasing, property management and consultancy services in Nanning, Guangxi, the People's Republic of China (the "PRC").

## 2. BASIS OF PRESENTATION AND PREPARATION

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange, the Company became the holding company of the Group on 23 November 2012, the details of which are as set out in the prospectus issued by the Company dated 30 November 2012.

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Stanards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

All HKFRSs effective for the accounting periods commencing from 1 January 2012 and relevant to the Group, have been adopted by the Group in the preparation of the consolidated financial statements consistently throughout the year to the extent required or allowed by the transitional provisions in HKFRS.

The consolidated financial statements have been prepared under historical cost basis except for investment properties, which are stated at fair value as explained in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$") which is the same as the functional currency of the Company.

## 3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSS

The Group has not early applied the following new and revised HKFRSs, that have been issued, but are not yet effective in the financial year of which the consolidated financial statements were prepared.

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009-2011 Cycle [2] |
| Amendments to HKAS 1 (Revised) | Presentation of Items of Other Comprehensive Income [1] |
| Amendments to HKAS 32 | Presentation – Offsetting Financial Assets and Financial Liabilities [3] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities [2] |
| HKFRS 9 | Financial Instruments [4] |
| HKFRS 10 | Consolidated Financial Statements [2] |
| HKFRS 11 | Joint Arrangements [2] |
| HKFRS 12 | Disclosure of Interests in Other Entities [2] |
| HKFRS 13 | Fair Value Measurement [2] |
| HKAS 19 (2011) | Employee Benefits [2] |
| HKAS 27 (2011) | Separate Financial Statements [2] |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures [2] |

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

Information on new and revised HKFRSs that are expected to affect the Group is as follows:

**Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income**

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

**HKFRS 9 – Financial Instruments**

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains and losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

**HKFRS 10 – Consolidated Financial Statements**

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

**HKFRS 12 – Disclosure of Interests in Other Entities**

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

**HKFRS 13 – Fair Value Measurement**

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

## 4. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has four reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

| | |
|---|---|
| Property leasing | – Leasing of commercial units, residential units and commercial shops; |
| Property development | – Construction and sales of residential units and commercial shops; |
| Building management services | – Rendering of building management services; and |
| Advisory and consultancy services | – Rendering of advisory and consultancy services. |

Inter-segment transactions are priced with reference to prices charged to external parties for similar order.

Certain revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segment's profit that is used by the chief operating decision-maker for assessment of segment performance.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

**Segment revenue and results**

| | **Property leasing HK$'000** | **Property development HK$'000** | **Building management services HK$'000** | **Advisory and consultancy services HK$'000** | **Total HK$'000** |
|---|---|---|---|---|---|
| **Year ended 31 December 2012** | | | | | |
| Reportable segment revenue | **52,885** | **332,177** | **20,357** | **5,735** | **411,154** |
| Reportable segment profit | **66,894** | **55,150** | **3,028** | **2,845** | **127,917** |
| Other segment information: | | | | | |
| Interest income | **185** | **138** | **13** | **4** | **340** |
| Amortisation of leasehold land | **13** | **—** | **—** | **—** | **13** |
| Gain on fair value of investment properties | **61,712** | **—** | **—** | **—** | **61,712** |
| Income tax expenses | **17,779** | **22,452** | **—** | **—** | **40,231** |
| Depreciation of property, plant and equipment | **925** | **458** | **382** | **60** | **1,825** |

| | Property leasing HK$'000 | Property development HK$'000 | Building management services HK$'000 | Advisory and consultancy services HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Year ended 31 December 2011 | | | | | |
| Reportable segment revenue | 44,501 | 265,313 | 18,191 | 1,302 | 329,307 |
| Reportable segment profit/(loss) | 50,119 | 64,472 | 660 | (569) | 114,682 |
| Other segment information: | | | | | |
| Interest income | 293 | 522 | 73 | 7 | 895 |
| Amortisation of leasehold land | 13 | — | — | — | 13 |
| Gain on fair value of investment properties | 46,524 | — | — | — | 46,524 |
| Income tax expenses | 16,180 | 8,666 | — | — | 24,846 |
| Depreciation of property, plant and equipment | 1,108 | 345 | 470 | 36 | 1,959 |

**Segment assets and liabilities**

| | Property leasing HK$'000 | Property development HK$'000 | Building management services HK$'000 | Advisory and consultancy services HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2012** | | | | | |
| Reportable segment assets | **827,799** | **359,080** | **21,111** | **3,886** | **1,211,876** |
| Reportable segment liabilities | **(260,069)** | **(290,128)** | **(12,136)** | **(1,911)** | **(564,244)** |
| Other segment information: | | | | | |
| Additions to non-current assets | **2,594** | **78** | **218** | **34** | **2,924** |

| | Property leasing HK$'000 | Property development HK$'000 | Building management services HK$'000 | Advisory and consultancy services HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Year ended 31 December 2011 | | | | | |
| Reportable segment assets | 769,225 | 454,035 | 24,022 | 1,674 | 1,248,956 |
| Reportable segment liabilities | (284,630) | (372,451) | (20,424) | (1,484) | (678,989) |
| Other segment information: | | | | | |
| Additions to non-current assets | 30,625 | 451 | 163 | 12 | 31,251 |

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as follows:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Reportable segment revenue | **411,154** | 329,307 |
| Inter-segment revenue elimination | **(881)** | (871) |
| Revenue | **410,273** | 328,436 |
| Reportable segment profit | **127,917** | 114,682 |
| Dividend income from available-for-sale financial assets | **902** | 869 |
| Unallocated income and expenses | **(16,772)** | (5,803) |
| Unallocated income tax expense | **(23,718)** | (31,454) |
| Profit for the year | **88,329** | 78,294 |

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Reportable segment assets | **1,211,876** | 1,248,956 |
| Available-for-sale financial assets | **7,735** | 7,537 |
| Unallocated corporate assets | **60,510** | 4,704 |
| Total consolidated assets | **1,280,121** | 1,261,197 |
| Reportable segment liabilities | **564,244** | 678,989 |
| Dividend payables | **—** | 4,223 |
| Unallocated taxation liabilities | **12,228** | 21,983 |
| Unallocated deferred tax liabilities | **9,514** | 8,216 |
| Unallocated corporate liabilities | **13,363** | 11,718 |
| Total consolidated liabilities | **599,349** | 725,129 |

Segment assets consist primarily of property, plant and equipment, investment properties, interests in leasehold land, tax prepaid, inventories of properties, trade and other receivables and cash and cash equivalents.

Segment liabilities consist primarily of accruals of construction cost, advances received from the pre-sale of properties under development and properties held for sale, trade and other payables, interest-bearing borrowings and taxation liabilities.

As chief operating decision-maker of the Group considers most of the Group's revenue and results are attributable to the market in the PRC, the Group's assets are substantially located inside the PRC, no geographical information is presented.

For the year ended 31 December 2012, the Group did not depend on any single customer under each of the segments.

## 5. REVENUE

Revenue from the Group's principal activities recognised during the year is as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Building management income | **19,745** | 17,399 |
| Consultancy service income | **5,716** | 1,284 |
| Rental income of investment properties (note) | **52,635** | 44,440 |
| Sales of properties | **332,177** | 265,313 |
| | **410,273** | 328,436 |

Note:

The Group has contingent rental income of investment properties of approximately HK$2,603,000 for the year ended 31 December 2012 (2011: HK$2,666,000). The contingent rental income of investment properties is calculated based on a percentage of the relevant sales of the tenants pursuant to the rental agreements.

## 6. OTHER INCOME

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank interest income | **340** | 895 |
| Business support service income | **—** | 80 |
| Clerical service income | **—** | 86 |
| Dividend income from available-for-sale financial assets | **902** | 869 |
| Gain on exchange differences, net | **517** | — |
| Gain on disposals of property, plant and equipment | **30** | 5,345 |
| Government grant | **185** | 338 |
| Sundry income | **969** | 252 |
| | **2,943** | 7,865 |

## 7. FINANCE COSTS

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Interest charges on: | | |
| Bank borrowings wholly repayable within five years | **568** | 6,937 |
| Bank borrowings not wholly repayable within five years | **4,381** | 4,503 |
| Other borrowings wholly repayable within five years | **3,814** | 688 |
| Total borrowing costs | **8,763** | 12,128 |
| Less: interest capitalised | **(8,763)** | (12,128) |
| | **—** | — |

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the respective loan agreements. The interest charges on bank borrowings which contain a repayment on demand clause amounted to approximately HK$183,000 for the year ended 31 December 2012 (2011: HK$118,000).

## 8. PROFIT BEFORE INCOME TAX

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Profit before income tax is arrived at after charging/ (crediting): | | |
| Amortisation of interests in leasehold land | **13** | 13 |
| Auditors' remuneration | **1,026** | 782 |
| Cost of properties sold | **211,209** | 170,400 |
| Depreciation of property, plant and equipment | **1,911** | 2,237 |
| Donation | **1,030** | 1,033 |
| (Gain)/Loss on exchange differences, net | **(517)** | 146 |
| Impairment loss on trade receivables | **—** | 154 |
| Gain on disposal of property, plant, and equipment | **(30)** | (5,345) |
| Operating lease charges | **5,721** | 5,779 |
| Outgoings in respect of investment properties that generated rental income | **4,473** | 4,754 |

## 9. INCOME TAX EXPENSE

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Current income tax** | | |
| PRC corporate income tax | **16,295** | 23,530 |
| PRC land appreciation tax | **18,952** | 13,888 |
| PRC withholding income tax | **6,204** | — |
| | **41,451** | 37,418 |
| **Deferred tax** | | |
| PRC corporate income tax | **13,838** | 12,836 |
| PRC land appreciation tax | **7,441** | (1,878) |
| PRC withholding income tax | **1,219** | 7,924 |
| | **22,498** | 18,882 |
| **Total income tax expense** | **63,949** | 56,300 |

**Hong Kong profits tax**

No Hong Kong profits tax has been provided as the Group did not derive any assessable profit arising in Hong Kong during the year.

**PRC corporate income tax**

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the corporate income tax rate applicable to the Group's subsidiaries located in the PRC from 1 January 2008 is 25%.

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, the deferred tax assets and liabilities of the Group's subsidiaries operated in the PRC are calculated based on corporate income tax rate of 25%.

**PRC land appreciation tax ("LAT")**

Pursuant to the written notice for the LAT assessment issued by the local tax bureau dated 20 June 2012, a subsidiary of the Company, Nanning WTS Real Estate Development and Investment Company Limited* (南寧威特斯房地產開發投資有限公司) is subject to LAT and the LAT is calculated at 5% to 7% of its sales of properties in accordance with the authorised taxation method.

**PRC withholding income tax**

Pursuant to the Detailed Implementation Regulations for implementation of the new CIT Law issued on 6 December 2007, a 10% withholding income tax shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008. Dividends coming from the profits generated by the PRC companies after 1 January 2008 shall be subject to this withholding income tax.

A reconciliation of the income tax expense to profit before income tax at the statutory rates (PRC corporate income tax rate of the 25% and Hong Kong profits tax of 16.5%) for the regions in which the Company and the majority of its subsidiaries are domiciled to the income tax expense at the effective tax rates, is as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before income tax expense | **152,278** | 134,594 |
| Tax on profit before income tax, calculated at the rates applicable to profit in the tax jurisdictions concerned | **39,191** | 33,351 |
| Tax effect of non-deductible expenses | **1,382** | 1,648 |
| LAT deductible for calculation of income tax | **(12,179)** | (1,593) |
| LAT charges | **26,393** | 12,010 |
| Effect of withholding income tax at 10% on distributable profits of the Group's PRC subsidiaries | **7,423** | 7,924 |
| Others | **1,739** | 2,960 |
| Income tax expense | **63,949** | 56,300 |

## 10. DIVIDEND

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Proposed final dividend – HK4 cents (2011: Nil) per ordinary share | **12,000** | — |

Proposed final dividend is subject to the approval by the shareholders at the forthcoming annual general meeting. The proposed final dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings of the year.

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the owners of the Company for the year ended 31 December 2012 of approximately HK$79,177,000 (2011: HK$70,373,000), and of the weighted average number of 228,893,000 (2011: 225,000,000) ordinary shares in issue during the year, assuming that 225,000,000 shares issued pursuant to the Reorganisation had been in issue throughout both years.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the reporting years.

## 12. INVESTMENT PROPERTIES

Changes to the carrying amounts presented in the consolidated statement of financial position can be summarised as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **715,092** | 603,045 |
| Change in fair value of investment properties | **61,712** | 46,524 |
| Additions | **6,304** | 30,474 |
| Transfer from property, plant and equipment | **—** | 3,999 |
| Revaluation surplus upon transfer of owner-occupied properties to investment properties | **—** | 3,701 |
| Exchange difference | **6,491** | 27,349 |
| Carrying amount at 31 December | **789,599** | 715,092 |

The carrying amounts of the Group's investment properties attributable to the properties without the relevant title certificates, were approximately HK$3,471,000 (2011: HK$62,407,000) as at 31 December 2012. The Group has not obtained the land use rights certificates and building ownership certificates of these properties. The fair values of these properties were estimated assuming the Group had valid land use rights certificates and building ownership certificates of these properties and all land premium and related fees for the grant of certificates have been fully settled. The land premium and related fees for the grant of certificates are not significant. The Group has rented out and received rental income from these properties during the year. The application for the land use right certificates and building ownership certificates of these properties are in progress. As advised by the Company's PRC legal advisor, the Group has significant risks and rewards of ownership of these properties and is entitled to use and lease these properties notwithstanding the absence of title certificates. Further, subject to the Group's complying with applicable PRC laws and regulations, there is no legal impediment for the Group to obtain the title certificates for these properties. As such, the control, significant risks and rewards of ownership of these properties were vested with the Group and the Group has recognised these properties as investment properties.

Investment properties were valued at 31 December 2012 and 2011 by independent, professional qualified valuers, DTZ Debenham Tie Leung International Property Advisers (Guangzhou) Co., Ltd. ("DTZ"), who have the relevant experience in the location and category of properties being valued. DTZ have used investment approach by capitalising the rental income derived from the existing tenancies with due provision for the revisionary income potential of the property interest, or where appropriate, direct comparison method by making reference to comparable sales transactions as available in the relevant market. The fair value gains were recognised in profit or loss for the year.

Bank and other borrowings are secured by investment properties with a carrying value of approximately HK$363,366,000 (2011: HK$489,888,000) as at 31 December 2012 (note 19).

The Group's investment properties at their carrying amount are analysed as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| In PRC: | | |
| Leases of between 10 to 50 years | **780,524** | 707,392 |
| In Hong Kong: | | |
| Leases of between 10 to 50 years | **9,075** | 7,700 |

## 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Equity investments stated at cost | | |
| – Unlisted | **7,735** | 7,537 |

The unlisted equity securities are measured at cost less impairment losses as they do not have quoted market prices in active markets and the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair value cannot be measured reliably. The Group plans to hold these investments for the foreseeable future.

## 14. INVENTORIES OF PROPERTIES

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Properties under development | **205,211** | 250,017 |
| Properties held for sale | **99,998** | 104,113 |
| | **305,209** | 354,130 |
| Properties under development include: | | |
| – cost of leasehold land | **79,009** | 114,751 |
| – construction costs and capitalised expenditure | **118,371** | 124,912 |
| – interests capitalised | **7,831** | 10,354 |
| | **205,211** | 250,017 |

The properties under development and properties held for sale are all located in the PRC. The lease term for the leasehold land is 70 years.

The capitalisation rate of borrowing is approximately 3.98% (2011: 2.68%) for the year ended 31 December 2012.

As at 31 December 2011, bank borrowings are secured on properties under development with a carrying value of approximately HK$24,939,000 and properties held for sales with a carrying value of approximately HK$18,907,000 (note 19). The Group has repaid the bank borrowings and the security has been released during the year ended 31 December 2012.

As at 31 December 2012 and 2011, properties held under development amounting to HK$127,452,000 and HK$76,772,000 respectively, and they were expected not to be recovered by the Group within 12 months from the respective reporting dates.

## 15. TRADE RECEIVABLES

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Trade receivables | **1,927** | 692 |
| Less: Impairment loss recognised | **(159)** | (158) |
| Trade receivables, net | **1,768** | 534 |

Trade receivables are mainly derived from rental income, building management fee income and consultancy service income. The income is paid in accordance with the terms of the rental contracts, building management contracts and consultancy service contracts and the balance is due on presentation. As at 31 December 2012 and 2011, the fair values of trade receivables approximated to their carrying amounts.

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current and within 1 month | **864** | 265 |
| 1-3 months | **629** | 196 |
| 4-6 months | **178** | 16 |
| 7-12 months | **50** | 19 |
| Over 12 months | **47** | 38 |
| | **1,768** | 534 |

The ageing of trade receivables that were not impaired are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **—** | — |
| Less than 1 month past due | **864** | 265 |
| 1-3 months past due | **629** | 196 |
| 4-6 months past due | **178** | 16 |
| 7-12 months past due | **50** | 19 |
| Over 12 months past due | **47** | 38 |
| | **1,768** | 534 |

At each reporting date, the Group reviews receivables for evidence of impairment on both individual and collective basis. Trade receivables that were past due but not impaired were related to a number of tenants and customers that had a good track record of credit with the Group. Based on past credit history, the Directors believe that no impairment allowance is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered to be fully recoverable.

The below table reconciles the impairment loss of trade receivables for the years ended 31 December 2012 and 2011.

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| As at 1 January | **158** | — |
| Impairment loss recognised | **—** | 154 |
| Exchange differences | **1** | 4 |
| As at 31 December | **159** | 158 |

The Group did not hold any collateral as security or other credit enhancements over the trade receivables, whether determined on an individual or collective basis.

## 16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Deposits | **2,752** | 2,066 |
| Prepayments | **949** | 5,923 |
| Other receivables | **18,405** | 21,563 |
| | **22,106** | 29,552 |

The Directors considered that the fair values of deposits, prepayments and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these amounts have short maturity periods on their inception. The other receivables were neither past due nor impaired. The other receivables were related to counterparties for which there was no recent history of default.

## 17. TRADE PAYABLES

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Trade payables | **17,622** | 10,355 |

The Group was granted by its suppliers and contractors credit periods ranging from 30 to 90 days. The ageing analysis of trade payables of the Group as at 31 December 2012 and 2011 are as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| 0 – 30 days | **14,440** | 3,380 |
| 31 – 90 days | **165** | 3,039 |
| 91 – 180 days | **124** | 434 |
| Over 180 days | **2,893** | 3,502 |
| As at 31 December | **17,622** | 10,355 |

All amounts due are short term and hence the carrying values of trade payables are considered to be a reasonable approximation of their fair values.

## 18. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Accruals and other payables | **36,611** | 20,118 |
| Deposit received | **25,636** | 27,693 |
| Receipts in advance | **16,082** | 15,576 |
| | **78,329** | 63,387 |

## 19. INTEREST-BEARING BORROWINGS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Current** | | |
| Bank loans, secured | **12,564** | 64,770 |
| Other loans, secured | **9,952** | 9,872 |
| Other loans, unsecured | **31,100** | 30,850 |
| | **53,616** | 105,492 |
| **Non-current** | | |
| Bank loans, secured | **43,003** | 48,152 |
| Total borrowings | **96,619** | 153,644 |

The analysis of the carrying amount of the bank and other loans is as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Current** | | |
| Portion of bank and other loans due for repayment within one year | **47,367** | 102,673 |
| Portion of bank loans due for repayment after one year which contain repayment on demand clause | **6,249** | 2,819 |
| | **53,616** | 105,492 |
| **Non-current** | | |
| Portion of bank loans due for repayment after one year | **43,003** | 48,152 |
| | **96,619** | 153,644 |

The Group's bank and other loans are repayable as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year or on demand | **53,616** | 105,492 |
| In the second year | **5,950** | 5,294 |
| In the third to fifth year | **20,902** | 18,866 |
| After the fifth year | **16,151** | 23,992 |
| | **43,003** | 48,152 |
| | **96,619** | 153,644 |

The Group's bank and other loans are secured by legal charges over:

(a) certain of the Group's property, plant and equipment with carrying values of approximately HK$3,803,000 (2011: HK$3,915,000);

(b) certain of the Group's investment properties with carrying values of approximately HK$363,366,000 (2011: HK$489,888,000) (note 12);

(c) certain of the Group's properties under development with carrying values of approximately HK$24,939,000 as at 31 December 2011 (note 14);

(d) certain of the Group's properties held for sales with carrying values of approximately HK$18,907,000 as at 31 December 2011 (note 14);

(e) pledged bank deposits with carrying values of approximately HK$2,152,000 (2011: HK$2,135,000); and

(f) assignments of rental income arising from the tenancy agreements of subsidiaries' certain properties.

The effective interest rates of the Group's interest-bearing bank and other borrowings ranged from approximately 3.50% to 9.304% (2011: 3.50% to 10.59%) as at 31 December 2012.

## 20. RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

## BUSINESS REVIEW

The Group is principally engaged in the businesses of property development, property leasing, property management and consultancy businesses in Nanning, Guangxi, the PRC. The Group is an award winning green building property developer and an ISO14001 and ISO 9001 certified property manager in the city of Nanning, Guangxi. Founded in 1993, the Group has more than 19 years of experience in developing and leasing properties and approximately 9 years of experience in managing properties in numerous locations in Nanning.

### Property development business

***Fond England***, a green residential project with gross floor area ("GFA") of over 150,000 square meters ("sq.m.") in Nanning, was aggregately sold and pre-sold for over 90% as at 31 December 2012. In 2012, approximately 34,000 sq.m. including residential units, car parking space and commercial shops were sold and delivered to the purchasers. The profit before income tax of this segment was approximately HK$77.6 million for the year ended 31 December 2012.

With regards to the ***Li Yuan*** property development project with a site area of 9,074 square meters, the project is planned to build a residential and commercial project located in New & Hi-Tech Industrial Development Zone in Nanning . As of 31 December 2012, the Group paid approximately HK$63.7 million as land premium to the local government for the development. The Group had obtained the project listing approval from the Construction Land Planning Permits in November 2011 and February 2012 respectively. The Group is developing the Li Yuan Project site into a residential and commercial complex with a total of GFA of approximately 46,792 sq.m., consisting of high rise residential apartments with a total GFA of approximately 32,719 sq.m., retail shops with a total GFA of approximately 3,579 sq.m., car parking space with a total GFA of approximately 9,735 sq.m. and public facilities with a total GFA of approximately 759 sq.m. The Group has commenced the construction work of Li Yuan Project in mid 2012 and expects to complete the development by September 2014.

### Property leasing business

The leasing fee income from the Group's property leasing business was approximately HK$52.6 million for the year ended 31 December 2012.

The Group's leasing properties are mainly located in two districts, namely Xingning District (興寧區) and Xixiangtang District (西鄉塘區) of Nanning. As of 31 December 2012, the Group's retail units which were held for the purpose of leasing to independent third parties comprise an aggregate rentable GFA of approximately 23,606 sq.m. in the PRC, of which the aggregate GFA of approximately 17,405 sq.m. in the PRC has been leased out.

**Property management and consultancy business**

The property management and consultancy service fee income from the Group's property management and consultancy business of approximately HK$19.7 million and HK$5.7 million respectively were contributed to the Group's revenue for the year ended 31 December 2012.

The Group's property management business comprises managing properties that the Group holds in its investment property portfolio, properties that the Group has developed, as well as properties owned or legally used by independent third party property owners or users. The Group's management services include setting property management procedures, providing security, maintaining the properties, landscaping, developing environment protection policies, event planning and consulting services. These business activities are carried out under 南寧金裕豐物業管理有限公司 (Nanning Golden Yu Feng Property Management Co., Limited*) (an indirect non-wholly owned subsidiary of the Company) ("**Golden Yu Feng**") which holds a valid Class 2 qualification allowing it to carry out property management of up to 300,000 sq.m. for each residential property and up to 80,000 sq.m. for each non-residential property it manages. As of 31 December 2012, the Group derived its property management income mainly from Yu Feng Plaza, Fond England, International Kitchen Supplies Centre and Guangxi International Trade Centre.

For the property consultancy business, the Group provides consultancy services to independent third party property owners or permitted users on sub-leasing or management of their properties. In addition, consultancy services that the Group offers include (i) locating prospective tenants; (ii) determining the market positioning of each property, or each level, or the units within the properties; and (iii) developing featured theme shopping malls, or selecting appropriate tenants. The Group also provides property agency services in respect of sale of properties.

## FINANCIAL REVIEW

### Revenue

During the years ended 31 December 2011 and 2012, the Group's revenue was derived from (i) sales of properties (most of which were residential units, commercial units and car parks of Fond England); (ii) rental income of investment properties owned by the Group and independent third parties; (iii) building management income; and (iv) consultancy service income. The following table sets forth the Group's revenue from each of these segments and as a percentage of total revenue for the periods indicated:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| Sales of properties | **332,177** | **81.0** | 265,313 | 80.8 |
| Rental income of investment properties | **52,635** | **12.8** | 44,440 | 13.5 |
| Building management income | **19,745** | **4.8** | 17,399 | 5.3 |
| Consultancy service income | **5,716** | **1.4** | 1,284 | 0.4 |
| | **410,273** | **100.0** | 328,436 | 100.0 |

Sales of properties increased by 25.2% from approximately HK$265.3 million in 2011 to approximately HK$332.2 million in 2012. This increase was primarily due to a significant increase in the sales of properties in Fond England in the year 2012. Saleable GFA delivered for the financial years ended 31 December 2011 and 2012 were approximately 28,172 sq.m. and approximately 34,018 sq.m. respectively.

### Cost of Sales

Cost of sales increased by 31.3% to approximately HK$258.7 million for the year ended 31 December 2012 from approximately HK$197.1 million for the year ended 31 December 2011. This result was also primarily attributable to the increase in saleable GFA sold and delivered in relation to Fond England during 2012.

**Gross Profit and Gross Profit Margin**

The gross profit amounted to approximately HK$131.4 million and approximately HK$ 151.6 million for the years ended 31 December 2011 and 2012 respectively, representing a gross profit margin of approximately 40.0% and 37.0% respectively. The overall decrease in gross profit margin was mainly due to a slight decrease in gross profit margin in the sales of properties segment in 2012.

**Other Income**

Other income decreased from approximately HK$7.9 million in the previous financial year to approximately HK$2.9 million for the year ended 31 December 2012. The main resaon for the drop came from the reduction of the gain on plant, property and equipment in 2012.

**Borrowing Costs**

Borrowing costs incurred for the construction and improvement in investment properties are capitalised during the period of time. Other borrowing costs are expensed when incurred.

Captialised borrowing costs decreased from approximately HK$12.1 million for the year ended 31 December 2011 to approximately HK$8.8 million for the year ended 31 December 2012. The decrease was mainly due to the repayment of bank loans for the purpose of construction.

**Gain on Changes in Fair Value of Investment Properties**

The gain on changes in fair value of investment properties for the year ended 31 December 2012 increased to approximately HK$61.7 million from approximately HK$46.5 million in the previous financial year. The increase reflected property value in Nanning is still in an upward trend as compared with 2011.

**Administrative Expenses**

Administrative expenses increased by 30.2% to approximately HK$54.9 million for the year ended 31 December 2012 from approximately HK$42.1 million for the year ended 31 December 2011, primarily due to the expenses incurred in relation to the listing expenses of approximately HK$5.4 million and the increase in consultancy fees of approximately HK$3.1 million.

**Selling Expenses**

Selling expenses remained stable to approximately HK$9.1 million for the year ended 31 December 2012 from approximately HK$9.0 million for the year ended 31 December 2011.

**Profit before Income Tax**

As a cumulative effect of the foregoing factors, the Group had recorded a profit before tax of approximately HK$152.3 million for the year ended 31 December 2012, representing an increase of 13.1 % from approximately HK$134.6 million in the previous financial year.

**Income Tax Expenses**

Income tax expense increased from approximately HK$56.3 million in the previous financial year to approximately HK$63.9 million for the year ended 31 December 2012. The increase in income tax was mainly derived from the increase in LAT payable in the PRC resulting from the higher assessable appreciated value of properties delivered to customers during the year ended 31 December 2012.

**Profit for the Year attributable to the Owners of the Company**

The profit for the year attributed to the owners of the Company increased by approximately 12.5% from approximately HK$70.4 million in the previous financial year to approximately HK$79.2 million for the year ended 31 December 2012.

**Liquidity and Financial Resources**

The long-term funding and working capital required by the Group are primarily derived from income generated from core business operations, bank borrowings and cash proceeds derived from receipt in advance from the pre-sale of properties, which were used to finance its business operations and investment in development projects. The Group's liquidity position was well-managed in the year 2012. The Group's gearing ratio (total borrowings divided by total equity) dropped to 14.2% as at 31 December 2012. The Group had net cash of debt (total borrowings less cash and cash equivalents) of approximately HK$36.8 million as at 31 December 2012 and its net debt to equity ratio of the Group is -5.4% as at 31 December 2012.

The Group's cash and cash equivalents and restricted cash amounted to approximately HK$133.4 million in total as at 31 December 2012 (2011: HK$138.6 million). Total borrowings as at 31 December 2012 was approximately HK$96.6 million (2011: HK$153.6 million).

Of the total borrowings, approximately HK$53.6 million was repayable within one year while approximately HK$43.0 million was repayable after one year.

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by its management to finance its operations and mitigate the effects of fluctuations in cash flow. The Group's management also monitors its net current assets/liabilities and the utilisation of borrowings to ensure efficient use of the available banking facilities and compliance with loan covenants.

**Financial Guarantee Contracts**

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. The balances as at 31 December 2011 and 2012 were approximately HK$199.1 million and approximately HK$221.4 million respectively. The increase was attributable to the additional sales made in the year of 2012.

**Capital Commitments**

Capital commitments were those contracts concluded but not provided for the construction of properties under development and investment properties. The balances as at 31 December 2011 and as at 31 December 2012 were approximately HK$103.6 million and approximately HK$124.2 million respectively.

**Pledge of Assets**

The Group used the facilities from its bank and other borrowings to finance its property development and overall expansion of its business. Secured borrowings were secured by property, plant and equipment, investment properties, bank deposits and assignments of rental income arising from the tenancy agreements of subsidiaries' certain properties.

**Material Acquisitions or Disposals**

Except for the transactions in connection with the Group's Reorganisation in preparation for the Listing as disclosed in the prospectus issued by the Company dated 30 November 2012, there has been no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2012.

**Capital Structure**

The shares of the Company were listed on GEM of the Stock Exchange (the "Listing") on 14 December 2012 (the "Listing Date"). There has been no change in the capital structure of the Company since the Listing Date. The capital of the Company comprises only ordinary shares.

### Foreign Currency Exposure

The business operations of the Group's subsidiaries were conducted mainly in the PRC with revenues and expenses of the Group's subsidiaries denominated mainly in RMB. The Group's cash and bank deposits, including net proceeds from the Listing, were denominated mainly in Hong Kong dollars, with some denominated in RMB. Any significant exchange rate fluctuations of Hong Kong dollars against RMB as the functional currency may have a financial impact to the Group.

As at 31 December 2012, the Directors considered the Group's foreign exchange risk to be insignificant. During the year ended 31 December 2012, the Group did not use any financial instruments for hedging purposes.

## OUTLOOK

The Group was listed on GEM of the Stock Exchange on 14 December 2012. The funds raised from the Listing have helped lay a solid foundation for the future development of the Group.

Looking forward, the Group will continue to engage in the property development and management businesses with emphasis on quality, comfort, and, above all, environmental friendliness. The Group aims to expand its (i) property leasing, (ii) property related management and consultancy, and (iii) property development businesses by application of green technology, including the operation and management of featured theme shopping mall, commercial and residential properties and the development of property projects with a green-focus.

## DIVIDEND

The Directors recommend, subject to shareholders' approval at the forthcoming annual general meeting to be held on Friday, 3 May 2013, the payment of a final dividend of HK4 cents (2011: Nil) per share for the year ended 31 December 2012 to those shareholders whose names appear on the register of members of the Company on Thursday, 16 May 2013. The final dividend is expected to be paid on or no later than Friday, 31 May 2013.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Tuesday, 14 May 2013 to Thursday, 16 May 2013 (both days inclusive). In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Monday, 13 May 2013.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiries of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors from the Listing Date up to 31 December 2012.

## CORPORATE GOVERNANCE

The Company is committed to fulfilling its responsibilities to its shareholders and protecting and enhancing shareholder value through solid corporate governance. The Company has followed the principles of the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules by adopting the code provisions and certain recommended best practices set out in the CG Code, including those that have already been effective on 1 April 2012, as its own code of corporate governance. Throughout the period from the Listing Date to 31 December 2012, the Company had complied with the code provisions set out in the CG Code, except for the deviation from the code provision A.2.1 of the CG Code.

Pursuant to the code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and not be performed by the same individual. Dr. Lee acts as both the chairman and the chief executive officer of the Company. The Directors are of the view that, given that Dr. Lee has been primarily responsible for leading the strategic planning and business development of the Group, the current arrangement would provide the Company with strong and consistent leadership, and allow for effective and efficient planning and implementation of business decisions and strategies. In addition, Dr. Lee's involvement in the Nanning property market industry would enable the Group to tap into the latest market development. The Directors consider that the current arrangement is overall beneficial to the management and development of the Group's business.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's annual report for the year ended 31 December 2012, which will be sent to the shareholders in due course.

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

There were no purchases, sales or redemption of the Company's listed securities by the Company and any of its subsidiaries during the period from the Listing Date to 31 December 2012.

## EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2012, the Group employed a total of 272 full-time employees (2011: 264 employees). Total staff costs, including Directors' emoluments, of the Group were approximately HK$32.6 million (2011: HK$30.4 million). The Group reviews the remuneration policies and packages on a regular basis and makes necessary adjustment commensurate with the remuneration level in the industry. In addition to a basic salary, year-end bonuses are offered to those staff with outstanding performance. A share option scheme was adopted on 23 November 2012 to attract and retain eligible employees to contribute to the Group. As at 31 December 2012, no option had been granted under the scheme.

## AUDIT COMMITTEE

The Group has established an audit committee on 23 November 2012 with written terms of reference in compliance with the CG Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls. The audit committee consists of three independent non-executive Directors, namely, Mr. Wong Chi Wai, Mr. Wong Tat Yan, Paul and Mr. Chan Chun Yee.

The audit committee has reviewed the Company's annual audited results for the year ended 31 December 2012.

By Order of the Board
**South West Eco Development Limited**
**Lee Kai Hung**
*Chairman*

Hong Kong, 21 March 2013

*As at the date of this announcement, the executive directors are Dr. Lee Kai Hung, Ms. Chan Koon Woon (also known as Mrs. Lee Chan Koon Woon), Dr. Lee Tse Ching, Elaine (also known as Dr. Eick Lee Tse Ching, Elaine) and Mr. Cheng Bun and the independent non-executive directors are Mr. Wong Chi Wai, Mr. Wong Tat Yan, Paul and Mr. Chan Chun Yee.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the Company's website at www.southwesteco.com.*

*This announcement is prepared in both English and Chinese. In the event of inconsistency, the English text of the announcement shall prevail over the Chinese text.*

*  *For identification purpose only*