

# 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



2013  
Interim Report

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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This report, 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 report 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 report misleading.

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board of Directors (the "Board") of South West Eco Development Limited (the "Company") is pleased to announce the following unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2013 and six months ended 30 June 2013 together with the comparative figures for the corresponding periods in 2012.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March		For the six months ended 30 June	
		2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000	2013 (unaudited) HK\$'000	2012 (Audited) HK\$'000
<b>Revenue</b>	4	<b>182,800</b>	60,018	<b>278,263</b>	175,662
Cost of sales		<b>(103,988)</b>	(32,761)	<b>(169,108)</b>	(116,339)
<b>Gross profit</b>		<b>78,812</b>	27,257	<b>109,155</b>	59,323
Other income	5	<b>1,296</b>	1,348	<b>2,152</b>	1,526
Gain on changes in fair value of investment properties		<b>146</b>	2,027	<b>2,054</b>	49,954
Administrative expenses		<b>(9,261)</b>	(14,460)	<b>(18,912)</b>	(26,054)
Selling expenses		<b>(3,394)</b>	(1,770)	<b>(7,242)</b>	(3,939)
<b>Profit before income tax</b>	7	<b>67,599</b>	14,402	<b>87,207</b>	80,810
Income tax expense	8	<b>(29,147)</b>	(11,545)	<b>(38,907)</b>	(34,163)
<b>Profit for the period</b>		<b>38,452</b>	2,857	<b>48,300</b>	46,647
<b>Other comprehensive income</b>					
Exchange gain/(loss) on translation of financial statements of foreign operations		<b>2,474</b>	(981)	<b>9,307</b>	(5,448)
<b>Other comprehensive income for the period</b>		<b>2,474</b>	(981)	<b>9,307</b>	(5,448)
<b>Total comprehensive income for the period</b>		<b>40,926</b>	1,876	<b>57,607</b>	41,199

	Notes	For the three months ended 31 March		For the six months ended 30 June	
		2013	2012	2013	2012
		(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(Audited) HK\$'000
<b>Profit for the period attributable to:</b>					
Owners of the Company		<b>35,841</b>	2,053	<b>44,888</b>	40,822
Non-controlling interests		<b>2,611</b>	804	<b>3,412</b>	5,825
		<b>38,452</b>	2,857	<b>48,300</b>	46,647
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		<b>38,046</b>	1,116	<b>53,169</b>	35,973
Non-controlling interests		<b>2,880</b>	760	<b>4,438</b>	5,226
		<b>40,926</b>	1,876	<b>57,607</b>	41,199
<b>Earnings per share for profit attributable to the owners of the Company</b>					
	10				
– Basic (HK cents)		<b>11.95</b>	0.91	<b>14.96</b>	18.14
– Diluted (HK cents)		<b>11.95</b>	0.91	<b>14.96</b>	18.14

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		8,655	9,286
Interests in leasehold land		428	429
Investment properties		805,516	789,599
Available-for-sale financial assets		8,001	7,735
		<b>822,600</b>	807,049
<b>Current assets</b>			
Inventories of properties		240,530	305,209
Trade receivables	11	2,492	1,768
Deposits, prepayments and other receivables		26,280	22,106
Tax prepaid		3,131	10,588
Bank balances and cash		107,284	133,401
		<b>379,717</b>	473,072
<b>Current liabilities</b>			
Trade payables	12	38,612	17,622
Accruals, deposits received and other payables		86,788	78,329
Advances received from the pre-sale of properties under development and properties held for sale		54,237	209,219
Interest-bearing borrowings		44,015	53,616
Taxation liabilities		19,465	12,228
		<b>243,117</b>	371,014
<b>Net current assets</b>		<b>136,600</b>	102,058
<b>Total assets less current liabilities</b>		<b>959,200</b>	909,107

	Notes	As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
<b>Non-current liabilities</b>			
Interest-bearing borrowings		40,742	43,003
Deferred tax liabilities		192,079	185,332
		<b>232,821</b>	228,335
<b>Net assets</b>			
		<b>726,379</b>	680,772
<b>EQUITY</b>			
Share capital	13	30,000	30,000
Proposed final dividend		—	12,000
Reserves		626,352	573,183
<b>Equity attributable to the Company's owners</b>			
<b>Non-controlling interests</b>			
		<b>70,027</b>	65,589
<b>Total equity</b>			
		<b>726,379</b>	680,772

## CONDENSED 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
<b>As at 1 January 2012 (audited)</b>	—	—	17,731	39,887	26,043	3,090	—	393,315	480,066	56,002	536,068
Dividend to other shareholders	—	—	—	—	—	—	—	—	—	(123)	(123)
<b>Transactions with owners</b>	—	—	—	—	—	—	—	—	—	(123)	(123)
Profit for the period	—	—	—	—	—	—	—	40,822	40,822	5,825	46,647
Other comprehensive income											
– Exchange loss of financial statements of foreign operations	—	—	—	(4,849)	—	—	—	—	(4,849)	(599)	(5,448)
<b>Total comprehensive income for the period</b>	—	—	—	(4,849)	—	—	—	40,822	35,973	5,226	41,199
Transfer between reserves	—	—	12,223	—	—	—	—	(12,223)	—	—	—
<b>As at 30 June 2012 (audited)</b>	—	—	29,954	35,038	26,043	3,090	—	421,914	516,039	61,105	577,144
<b>As at 1 January 2013 (audited)</b>	30,000	24,150	32,432	44,206	23,514	3,090	12,000	445,791	615,183	65,589	680,772
Dividend to shareholders	—	—	—	—	—	—	(12,000)	—	(12,000)	—	(12,000)
<b>Transactions with owners</b>	—	—	—	—	—	—	(12,000)	—	(12,000)	—	(12,000)
Profit for the period	—	—	—	—	—	—	—	44,888	44,888	3,412	48,300
Other comprehensive income											
– Exchange gain on translation of financial statements of foreign operations	—	—	—	8,281	—	—	—	—	8,281	1,026	9,307
<b>Total comprehensive income for the period</b>	—	—	—	8,281	—	—	—	44,888	53,169	4,438	57,607
<b>As at 30 June 2013 (unaudited)</b>	30,000	24,150	32,432	52,487	23,514	3,090	—	490,679	656,352	70,027	726,379

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2013	2012
	(Unaudited) HK\$'000	(Audited) HK\$'000
Net cash generated from/(used in) operating activities	1,483	(1,946)
Net cash generated from investing activities	1,544	2,273
Net cash used in financing activities	(29,131)	(61,343)
Net decrease in cash and cash equivalents	(26,104)	(61,016)
Cash and cash equivalents as at 1 January	125,610	130,218
Effect of foreign exchange rates changes on cash and cash equivalents	532	(815)
Cash and cash equivalents as at 30 June	100,038	68,387
Add: Pledged bank deposits	2,185	2,113
Add: Restricted deposits	5,061	4,743
Bank balances and cash as at 30 June	107,284	75,243



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

### 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 the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) 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 ("GEM") 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 provision of 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, 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 unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certificate Public Accountants ("HKICPA").

The basis of preparation and accounting policies adopted in preparing these unaudited interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the "New and Revised HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA that have become effective for accounting period beginning on 1 January 2013.

## 2. BASIS OF PRESENTATION AND PREPARATION *(Continued)*

The adoption of the New and Revised HKFRSs has had no significant effect on these unaudited condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated financial statements.

The Group has not applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such new and revised standards, amendments or interpretations to the Group but is yet to be in a position to state whether they would have any material financial impact on the Group's results of operations and financial position.

The unaudited condensed consolidated financial statements have been prepared under historical basis except for investment properties, which are stated at fair value.

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

### 3. 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.

#### 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
<b>Six months ended 30 June 2013</b>					
Reportable segment revenue	23,901	242,567	9,699	2,432	278,599
Reportable segment profit/(loss)	11,946	65,134	(658)	1,467	77,889
Other segment information:					
Interest income	66	54	6	3	129
Amortisation of leasehold land	7	—	—	—	7
Gain on fair value of investment properties	2,054	—	—	—	2,054
Income tax expenses	1,583	9,809	—	—	11,392
Depreciation of property, plant and equipment	442	220	201	50	913
	Property leasing HK\$'000	Property development HK\$'000	Building management services HK\$'000	Advisory and consultancy services HK\$'000	Total HK\$'000
<b>Six months ended 30 June 2012</b>					
Reportable segment revenue	28,647	132,919	10,282	4,303	176,151
Reportable segment profit	49,591	8,732	2,085	2,842	63,250
Other segment information:					
Interest income	113	77	5	2	197
Amortisation of leasehold land	7	—	—	—	7
Gain on fair value of investment properties	49,954	—	—	—	49,954
Income tax expenses	14,645	10,362	—	—	25,007
Depreciation of property, plant and equipment	529	190	180	31	930

### 3. SEGMENT INFORMATION *(Continued)*

#### 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
<b>As at 30 June 2013</b>					
Reportable segment assets	845,435	277,402	23,046	6,366	1,152,249
Reportable segment liabilities	(261,519)	(158,064)	(12,255)	(3,099)	(434,937)
Other segment information: Additions to non-current assets	2,084	31	48	8	2,171
	Property leasing HK\$'000	Property development HK\$'000	Building management services HK\$'000	Advisory and consultancy services HK\$'000	Total HK\$'000
<b>As at 31 December 2012</b>					
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

### 3. SEGMENT INFORMATION *(Continued)*

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

	<b>Six months ended 30 June</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Reportable segment revenue	<b>278,599</b>	176,151
Inter-segment revenue elimination	<b>(336)</b>	(489)
Revenue	<b>278,263</b>	175,662
Reportable segment profit	<b>77,889</b>	63,250
Dividend income from available-for-sale financial assets	<b>975</b>	899
Unallocated income and expenses	<b>(3,049)</b>	(8,346)
Unallocated income tax expense	<b>(27,515)</b>	(9,156)
Profit for the period	<b>48,300</b>	46,647
	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Reportable segment assets	<b>1,152,249</b>	1,211,876
Available-for-sale financial assets	<b>8,001</b>	7,735
Unallocated corporate assets	<b>42,067</b>	60,510
Total consolidated assets	<b>1,202,317</b>	1,280,121
Reportable segment liabilities	<b>434,937</b>	564,244
Unallocated taxation liabilities	<b>19,465</b>	12,228
Unallocated deferred tax liabilities	<b>16,070</b>	9,514
Unallocated corporate liabilities	<b>5,466</b>	13,363
Total consolidated liabilities	<b>475,938</b>	599,349

#### 4. REVENUE

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

	For the three months ended 31 March		For the six months ended 30 June	
	2013	2012	2013	2012
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(Audited) HK\$'000
Building management income	4,727	5,358	9,491	9,918
Consultancy service income	1,350	2,563	2,369	4,303
Rental income of investment properties (note)	12,109	14,669	23,773	28,522
Sales of properties	164,614	37,428	242,630	132,919
	<b>182,800</b>	60,018	<b>278,263</b>	175,662

Note:

The Group has contingent rental income of investment properties of approximately HK\$581,000 and HK\$686,000 for the three months ended 31 March 2013 and 2012 respectively and approximately HK\$1,208,000 and HK\$1,321,000 for the six months ended 30 June 2013 and 2012. 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.

#### 5. OTHER INCOME

	For the three months ended 31 March		For the six months ended 30 June	
	2013	2012	2013	2012
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(Audited) HK\$'000
Bank interest income	155	114	348	197
Dividend income from available-for-sale financial assets	969	902	975	899
Gain on exchange differences, net	111	87	699	—
Gain on disposals of property, plant and equipment	—	24	—	36
Government grant	—	—	—	184
Sundry income	61	221	130	210
	<b>1,296</b>	1,348	<b>2,152</b>	1,526

## 6. FINANCE COSTS

	For the three months ended 31 March		For the six months ended 30 June	
	2013	2012	2013	2012
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(Audited) HK\$'000
Interest charges on:				
Bank borrowings wholly repayable within five years	—	568	—	566
Bank borrowings not wholly repayable within five years	<b>1,018</b>	1,149	<b>2,041</b>	2,274
Other borrowings wholly repayable within five years	<b>954</b>	952	<b>1,942</b>	1,899
Total borrowing costs	<b>1,972</b>	2,669	<b>3,983</b>	4,739
Less: interest capitalised	<b>(1,972)</b>	(2,669)	<b>(3,983)</b>	(4,739)
	—	—	—	—

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\$61,000 and HK\$28,000 for the three months ended 31 March 2013 and 2012 respectively and approximately HK\$121,000 and HK\$55,000 for the six months ended 30 June 2013 and 2012.

## 7. PROFIT BEFORE INCOME TAX

	For the three months ended 31 March		For the six months ended 30 June	
	2013	2012	2013	2012
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(Audited) HK\$'000
Profit before income tax is arrived at after charging/ (crediting):				
Amortisation of interests in leasehold land	3	3	7	7
Auditors' remuneration	—	—	142	193
Cost of properties sold	86,484	23,992	139,443	102,148
Depreciation of property, plant and equipment	467	493	1,000	988
(Gain)/loss on exchange differences, net	(111)	(87)	(699)	208
Gain on disposals of property, plant, and equipment	—	(24)	—	(36)
Operating lease charges	1,423	1,346	2,875	2,612
Outgoings in respect of investment properties that generated rental income	1,126	1,147	2,193	2,512



## 8. INCOME TAX EXPENSE

	For the three months ended 31 March		For the six months ended 30 June	
	2013	2012	2013	2012
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(Audited) HK\$'000
<b>Current income tax</b>				
PRC corporate income tax	<b>16,463</b>	3,265	<b>21,035</b>	5,139
PRC land appreciation tax	<b>9,681</b>	1,902	<b>13,967</b>	7,275
PRC withholding income tax	—	4,828	—	6,188
	<b>26,144</b>	9,995	<b>35,002</b>	18,602
<b>Deferred tax</b>	<b>3,003</b>	1,550	<b>3,905</b>	15,561
<b>Total income tax expense</b>	<b>29,147</b>	11,545	<b>38,907</b>	34,163

### 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 period.

### 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 period, 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%.

## **8. INCOME TAX EXPENSE** *(Continued)*

### **PRC corporate income tax** *(Continued)*

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period 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, 南寧威特斯房地產開發投資有限公司 Nanning WTS Real Estate Development and Investment Company Limited\* 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.

## 9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the owners of the Company for the three months ended 31 March 2013 and six months ended 30 June 2013 of approximately HK\$35,841,000 and HK\$44,888,000 respectively (three months ended 31 March 2012 and six months ended 30 June 2012: HK\$2,053,000 and HK\$40,822,000 respectively), and of the weighted average number of 300,000,000 and 300,000,000 (three months ended 31 March 2012 and six months ended 30 June 2012: 225,000,000 and 225,000,000 ) ordinary shares in issue during the period respectively, assuming that 225,000,000 shares issued pursuant to the Reorganisation had been in issue throughout both periods.

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 periods.

## 11. TRADE RECEIVABLES

	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
Trade receivables	<b>2,654</b>	1,927
Less: Impairment loss recognised	<b>(162)</b>	(159)
Trade receivables, net	<b>2,492</b>	1,768

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

	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
Current and within 1 month	<b>953</b>	864
1-3 months	<b>510</b>	629
3-6 months	<b>474</b>	178
6-12 months	<b>487</b>	50
Over 12 months	<b>68</b>	47
	<b>2,492</b>	1,768

## 11. TRADE RECEIVABLES (Continued)

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

	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
Neither past due nor impaired	—	—
Less than 1 month past due	953	864
1-3 months past due	510	629
3-6 months past due	474	178
6-12 months past due	487	50
Over 12 months past due	68	47
	<b>2,492</b>	1,768

## 12. TRADE PAYABLES

	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
Trade payables	<b>38,612</b>	17,622

The ageing analysis of trade payables of the Group are as follows:

	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
0 – 30 days	702	14,440
31 – 90 days	188	165
91 – 180 days	25,024	124
Over 180 days	12,698	2,893
	<b>38,612</b>	17,622

### 13. SHARE CAPITAL

	Number of shares	Amount HK\$'000
<b>Authorised:</b>		
Ordinary shares of HK\$0.1 each		
At 31 December 2012 and 30 June 2013	1,000,000,000	100,000
	Number of shares	Amount HK\$'000
<b>Issued and fully paid:</b>		
Ordinary shares of HK\$0.1 each		
At 31 December 2012 and 30 June 2013	300,000,000	30,000

### 14. CAPITAL COMMITMENTS

The commitments for the construction of property under development are as follows:

	<b>As at 30 June 2013 (Unaudited) HK\$'000</b>	As at 31 December 2012 (Audited) HK\$'000
Contracted but not provided for – property under development	<b>48,297</b>	124,191

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is principally engaged in the businesses of property development, property leasing, property management and provision of consultancy services in Nanning, Guangxi, the PRC. The Group is an award winning green building property developer and an ISO14001 and ISO9001 certified property manager in the city of Nanning, Guangxi. Founded in 1993, the Group has more than 20 years of experience in developing and leasing properties and approximately 10 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 93% as at 30 June 2013. In the six months ended 30 June 2013, approximately 17,804 sq.m. including residential units, car parking space and commercial shops were sold and delivered to the purchasers. The revenue of this segment was approximately HK\$242.6 million for the six months ended 30 June 2013.

With regards to the **Li Yuan** property development project (the "Li Yuan Project") with a site area of 9,074 sq. m., the project is planned to build a residential and commercial project located in New & Hi-Tech Industrial Development Zone in Nanning. As of 30 June 2013, 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 and 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\$23.8 million for the six months ended 30 June 2013.

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 30 June 2013, the Group's retail units which were held for the purpose of leasing to independent third parties comprise an aggregate rentable GFA of approximately 23,658 sq.m. in the PRC, of which the aggregate GFA of approximately 17,081 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\$9.5 million and HK\$2.4 million respectively were contributed to the Group's revenue for the six months ended 30 June 2013.

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) 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 30 June 2013, 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 six months ended 30 June 2013, 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.

Sales of properties increased by 82.5% from approximately HK\$132.9 million in the six months ended 30 June 2012 to approximately HK\$242.6 million in the corresponding period in 2013. This increase was primarily due to an increase in the selling prices and the saleable GFA sold and delivered in respect of Fond England during the mentioned period in 2013. Saleable GFA delivered for the six months ended 30 June 2013 and 2012 were approximately 17,804 sq.m. and approximately 16,190 sq.m. respectively.

### Cost of Sales

Cost of sales increased by 45.4% to approximately HK\$169.1 million for the six months ended 30 June 2013 from approximately HK\$116.3 million for the six months ended 30 June 2012. This result was also primarily attributable to the increase in saleable GFA sold and delivered in relation to Fond England during the six months ended 30 June 2013.

### Gross Profit and Gross Profit Margin

The gross profit amounted to approximately HK\$109.2 million and approximately HK\$59.3 million for the six months ended 30 June 2013 and 2012 respectively, representing a gross profit margin of approximately 39.2% and 33.8% respectively. The overall increase in gross profit margin was mainly due to a slightly increase in gross profit margin in the sales of properties segment in the six months ended 30 June 2013.

### **Other Income**

Other income amounted to approximately HK\$2.2 million and approximately HK\$1.5 million for the six months ended 30 June 2013 and 2012 respectively.

### **Borrowing Costs**

Borrowing costs incurred for the construction and improvement in investment properties were capitalised during the period of time.

Capitalised borrowing costs decreased from approximately HK\$4.7 million for the six months ended 30 June 2012 to approximately HK\$4.0 million for the six months ended 30 June 2013. 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**

There was a gain on changes in fair value of investment properties for the six months ended 30 June 2013 of approximately HK\$2.1 million while there was a gain of approximately HK\$50.0 million in the previous corresponding financial period. The decrease in gain reflected a short term fluctuation of property value in Nanning.

### **Administrative Expenses**

Administrative expenses decreased by 27.4% to approximately HK\$18.9 million for the six months ended 30 June 2013 from approximately HK\$26.1 million for the six months ended 30 June 2012, primarily because there was listing expenses of approximately HK\$6.7 million incurred for the six months ended 30 June 2012 and the Directors' remuneration decreased by approximately HK\$0.5 million.

### **Selling Expenses**

Selling expenses increased from approximately HK\$3.9 million in the previous corresponding period to approximately HK\$7.2 million for the six months ended 30 June 2013. The main reason for the increase came from the increase in the commission expenses resulting from the increase in sales of properties and the promotion costs incurred for Li Yuan Project during the six months ended 30 June 2013.

### **Profit before Income Tax**

As a cumulative effect of the foregoing factors, the Group had recorded a profit before tax of approximately HK\$87.2 million for the six months ended 30 June 2013, representing an increase of 7.9% from approximately HK\$80.8 million for the six months ended 30 June 2012.

### **Income Tax Expenses**

Income tax expense increased from approximately HK\$34.2 million in the previous financial year to approximately HK\$38.9 million for the six months ended 30 June 2013. The increase in income tax was mainly due to i) the increase in LAT payable in the PRC resulting from the higher assessable appreciated value of properties delivered to customers and ii) the increase in corporate income tax resulting from higher profit during the six months ended 30 June 2013.

### **Profit for the period attributable to the Owners of the Company**

The profit for the period attributed to the owners of the Company increased by approximately 10.0% from approximately HK\$40.8 million in the previous corresponding financial period to approximately HK\$44.9 million for the six months ended 30 June 2013.



## COMPARISON BETWEEN BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the prospectus issued by the Company dated 30 November 2012 (the "Prospectus") with the Group's actual business progress for the six months ended 30 June 2013 (the "Review Period") is set out below:

### Business objectives for the Review Period

### Actual Business Progress for the six months ended 30 June 2013

#### *Continue to develop possible potential featured theme shopping mall*

Identify appropriate property for the establishment of possible potential featured theme shopping mall

A potential shopping mall has been identified with a featured theme selected and the feasibility study on the selected theme has commenced. The project was however abandoned due to failure in reaching an agreement on tenancy terms with the landlord of the shopping mall. The Company will continue to seek appropriate property for featured theme shopping mall establishment.

#### *Continue to develop the Group's property development project with a green-focus project*

Complete the property development of Phase 2 of Fond England

The property development of Phase 2 of Fond England was completed in March 2013.

Final inspection of 2A Technical Standards for Performance Assessment of Residential Buildings ("PARB") for Phases 2 and 3 of Fond England

Final inspection of 2A Technical Standards for PARB for Phases 2 and 3 of Fond England is being prepared. Relevant documents of the project are being collected. The final inspection is expected to be completed in December 2013.

Continue the property development of the Li Yuan Project

Block A and Block B of the Li Yuan Project were constructed to 17<sup>th</sup> and 10<sup>th</sup> floor respectively.

Interim review and inspection of 3A Technical Standards for PARB of the Li Yuan Project

Application of 3A Technical Standards for PARB of the Li Yuan Project was withdrawn as the nature of the 3A Technical Standards for PARB is similar to that of the Green Buildings Standards. The Group has obtained the Green Buildings Standard (3 stars) in January 2013.

#### *Pursue potential acquisition opportunities or invest in the property development and property leasing industry*

Evaluate and explore possible potential acquisitions opportunities

The Group had not yet identified any acquisitions opportunities but will continue to seek appropriate ones.

#### *Enhancing brand recognition on properties related business in Nanning*

Continue to organise promotional and marketing events

About 14 promotional and marketing events had been organised.

Continue to develop market positioning strategies for properties owned by the Group

Market positioning strategies for part of the properties owned by the Group had been developed and the development of strategies for the remaining properties was underway.

Continue to provide environmentally friendly and value-added consultancy services

The Group has obtained 6 new projects related to consultancy services during the Review Period.

## Use of Proceeds

The net proceeds from the Listing were approximately HK\$25.5 million, which was based on the final placing price of HK\$0.66 per share and the actual expenses related to the Listing. Accordingly, the Group adjusted the use of proceeds in the same manner and proportion as shown in the Prospectus.

During the period from the date of Listing (i.e. 14 December 2012) (the "Listing Date"), to 30 June 2013, the net proceeds from the Listing had been applied as follows:

	<b>Adjusted use of proceeds in the same manner and proportion as shown in the Prospectus from the Listing Date to 30 June 2013 HK\$ million</b>	<b>Actual use of proceeds from the Listing Date to 30 June 2013 HK\$ million</b>
The development and operation of featured theme shopping mall and maintenance of other investment properties	13.2	—
The perusal of potential acquisition opportunities or invest in the property related industry (including holding companies of investment properties and/or land reserve, property management companies or business and or property consulting companies or business)	9.8	—
General working capital and other general corporate purposes of the Group	2.5	2.5
	<b>25.5</b>	<b>2.5</b>

The Directors will constantly evaluate the Group's business objectives and may change or modify plans against the changing market condition to attain sustainable business growth of the Group.

All the unutilised balances have been placed in licensed banks in Hong Kong and the PRC.

## **ADDITIONAL DISCLOSURES**

### **Registration of lease agreements in the PRC**

As disclosed in the prospectus of the Company dated 30 November 2012 (the "Prospectus"), some lease agreements in respect of certain investment properties in the PRC held or leased by the Group, which are required to be registered under the PRC laws, were not registered or registrable.

As at 30 June 2013, there were still 10 lease agreements pending to be registered, due to the non-fixed term nature of the lease agreements (3 lease agreements were involved), the delay or refusal of the counterparties to provide the necessary information to effect registration in a timely manner (4 lease agreements were involved) and the lack of relevant building ownership certificates (3 lease agreements were involved). The Company will keep monitoring the registration status of its lease agreements with the aim of completing the registration of the remaining lease agreements as early as practicable.

### **Property ownership certificate of Yu Feng High Street**

As disclosed in the Prospectus, following the refurbishment and renovation of Yu Feng High Street (formerly known as Wan Guo Shopping Mall (萬國商場)), the property ownership certificate issued on 11 May 2012 in respect of the refurbished Yu Feng High Street approved and covered a GFA of 7,484 sq. m., and it was later transpired that there was a shortfall in GFA of approximately 770 sq. m. which was yet to be covered under the property ownership certificate. The Group has delegated a senior management staff to keep liaising with the relevant PRC authorities and following up on the application procedure for a new property ownership certificate of Yu Feng High Street. As at 30 June 2013, the application process was still ongoing. Given that the application for a new property ownership certificate under the above special circumstance is not one which is usually taken out before the relevant PRC authorities, the Group expects that the processing time would be longer than is normally required. There was no indication from the PRC authorities as to how long such process would take. The Group will maintain its communication with the relevant PRC authorities closely so to obtain the up-to-date status of the application progress until the new property ownership certificate covering the shortfall in GFA is issued.

### Property ownership certificate of Yu Feng Plaza

As disclosed in the Prospectus, a new property ownership certificate that covers both the existing GFA of Yu Feng Plaza and the subsurface space (the "Subsurface Space") formed during the development of Yu Feng Plaza shall be applied from the Nanning Planning and Administration Bureau\* (南寧市規劃管理局) (the "NPAB"). After settling the penalty fee for rectifying such non-compliance by the Group in March 2013 and as at 30 June 2013, the Group has (i) obtained from the NPAB, in relation to the Subsurface Space, the Construction Works Planning Permit\* (建設工程規劃許可證), the Nanning Construction Works Planning Completion and Acceptance Certificate\* (南寧市建設工程規劃竣工驗收合格證) and the Nanning Xingning District Construction Works and Municipal Infrastructure Projects Completion Acceptance Certificate\* (南寧市興寧區房屋建築工程和市政基礎設施工程竣工驗收備案證明書); and (ii) submitted the Surveying Report\* (測繪報告) of Yu Feng Plaza (covering the Subsurface Space) to the relevant PRC authorities for processing the Group's application for a new property ownership certificate. The application process is ongoing. Given the application taken out by the Group due to the above special circumstance is not the usual type handled by the relevant PRC authorities and coordination with and among various PRC authorities and departments is required, it will take more time than is normally required. The Company estimates that the new property ownership certificate of Yu Feng Plaza may only be obtained by the end of 2013.

### 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 property leasing and 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.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2013, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### Long positions

#### Ordinary shares of the Company

Name of Director	Capacity/nature of interest	Number of issued ordinary shares held	Approximate percentage of shareholding (Note 4)
Lee Kai Hung ("Dr. Lee")	Interest of controlled corporation (Note 1)	90,000,000	30%
Chan Koon Woon (also known as Mrs. Lee Chan Koon Woon) ("Mrs. Lee")	Interest of controlled corporation (Note 2)	90,000,000	30%
Lee Tse Ching, Elaine (also known as Dr. Eick Lee Tse Ching, Elaine) ("Dr. Elaine Eick")	Interest of controlled corporation (Note 3)	45,000,000	15%

Notes:

- (1) These shares were registered in the name of First Beijing International Limited ("First Beijing"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Dr. Lee, an executive Director. Dr. Lee is deemed to be interested in all the shares in which First Beijing is interested by virtue of the SFO. Dr. Lee is the sole director of First Beijing.
- (2) These shares were registered in the name of Ease Gain Holdings Limited ("Ease Gain"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mrs. Lee, an executive Director. Mrs. Lee is deemed to be interested in all the shares in which Ease Gain is interested by virtue of the SFO. Mrs. Lee is the sole director of Ease Gain.
- (3) These shares were registered in the name of Chosen Leader Limited ("Chosen Leader"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Dr. Elaine Eick, an executive Director. Dr. Elaine Eick is deemed to be interested in all the shares in which Chosen Leader is interested by virtue of the SFO. Dr. Elaine Eick is the sole director of Chosen Leader.
- (4) The percentage of shareholding was calculated based on the total issued share capital of 300,000,000 shares of the Company as at 30 June 2013.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2013, so far as it was known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) which had 5% or more interests in the Shares and the underlying Shares as recorded in the register kept under section 336 of the SFO were as follows:

### Long positions

#### Ordinary shares of the Company

Name of Shareholder	Capacity/nature of interest	Number of issued ordinary shares held	Approximate percentage of shareholding (Note 5)
First Beijing (Note 1)	Beneficial owner	90,000,000	30%
Ease Gain (Note 2)	Beneficial owner	90,000,000	30%
Chosen Leader (Note 3)	Beneficial owner	45,000,000	15%
Dr. Holger Eick (Note 3)	Interest of a spouse	45,000,000	15%
Ms. Huang Yuanning (黃元寧)	Beneficial owner	21,672,000	7.22%
Mr. Zhang Liming (張麗銘) (Note 4)	Interest of a spouse	21,672,000	7.22%

Notes:

- (1) These shares were registered in the name of First Beijing, the entire issued share capital of which is owned by Dr. Lee, an executive Director. Dr. Lee is deemed to be interested in all the shares in which First Beijing is interested by virtue of the SFO. Dr. Lee is the sole director of First Beijing.
- (2) These shares were registered in the name of Ease Gain, the entire issued share capital of which is owned by Mrs. Lee, an executive Director. Mrs. Lee is deemed to be interested in all the shares in which Ease Gain is interested by virtue of the SFO. Mrs. Lee is the sole director of Ease Gain.
- (3) These shares were registered in the name of Chosen Leader, the entire issued share capital of which is owned by Dr. Elaine Eick, an executive Director. Dr. Elaine Eick is deemed to be interested in all the shares in which Chosen Leader is interested by virtue of the SFO. Dr. Elaine Eick is the sole director of Chosen Leader. As Dr. Holger Eick is the spouse of Dr. Elaine Eick, he is deemed, or taken to be, interested in the shares which Dr. Elaine Eick is deemed, or taken to be interested in for the purposes of the SFO.
- (4) These shares were registered in the name of Ms. Huang Yuanning, who is the spouse of Mr. Zhang Liming. By virtue of the SFO, Mr. Zhang Liming is deemed to be interested in the shares which Ms. Huang Yuanning is interested in for the purposes of the SFO.
- (5) The percentage of shareholding was calculated based on the total issued share capital of 300,000,000 shares of the Company as at 30 June 2013.

## **INTEREST OF COMPLIANCE ADVISER**

As notified by Haitong International Capital Limited (“Haitong”), the Company’s compliance adviser, neither Haitong nor any of its directors or employees or associates had any interest in the share capital of the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement entered into between the Company and Haitong in December 2012) as at 30 June 2013.

## **COMPETING INTEREST OF DIRECTORS, CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE ASSOCIATES**

As at 30 June 2013, none of the Directors, controlling shareholders of the Company or any of their respective associates is considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests, which is required to be disclosed under Rule 11.04 of the GEM Listing Rules.

## **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 during the six months ended 30 June 2013.

## **CORPORATE GOVERNANCE**

During the six months ended 30 June 2013, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 to the GEM Listing Rules, except that Dr. Lee acts as both the chairman and the chief executive officer of the Company while code provision A.2.1 of the CG Code requires that the responsibilities between these two positions shall be segregated and not performed by the same individual. The considered reason of the Company for the above deviation was disclosed on page 29 of the “Corporate Governance Report” under the Company’s annual report for the financial year ended 31 December 2012 and there has been no change as to corporate governance compliance during the period under review.

## **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 six months ended 30 June 2013.

## AUDIT COMMITTEE

The Board 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 of the Company. 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 unaudited consolidated financial statements of the Group for the six months ended 30 June 2013 and is of the opinion that such statements comply with the applicable accounting standards and requirement, and that adequate disclosure have been made.

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

Hong Kong, 9 August 2013

*As at the date of this report, 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 report is prepared in both English and Chinese. In the event of inconsistency, the English text of the report shall prevail over the Chinese text.*

\* *for identification purpose only*