# 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: 1908)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board (the "Board") of directors (the "Directors") of South West Eco Development Limited (the "Company") is pleased to announce the following audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014 (the "Year") together with the comparative figures for the year ended 31 December 2013.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | Notes | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **342,601** | 383,064 |
| Cost of sales | | **(260,899)** | (244,594) |
| **Gross profit** | | **81,702** | 138,470 |
| Other income | 6 | **1,542** | 4,383 |
| Gain on changes in fair value of investment properties | | **22,317** | 31,502 |
| Administrative expenses | | **(39,885)** | (42,581) |
| Selling expenses | | **(6,997)** | (12,510) |
| **Profit before income tax** | 8 | **58,679** | 119,264 |
| Income tax expense | 9 | **(21,760)** | (49,957) |
| **Profit for the year** | | **36,919** | 69,307 |
| **Other comprehensive income, after tax** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange (loss)/gain on translation of financial statements of foreign operations | | **(16,794)** | 17,559 |
| **Other comprehensive income for the year, net of tax** | | **(16,794)** | 17,559 |
| **Total comprehensive income for the year** | | **20,125** | 86,866 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **31,273** | 63,514 |
| Non-controlling interests | | **5,646** | 5,793 |
| | | **36,919** | 69,307 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **16,296** | 79,149 |
| Non-controlling interests | | **3,829** | 7,717 |
| | | **20,125** | 86,866 |
| **Earnings per share for profit attributable to the owners of the Company** | 11 | | |
| – Basic (HK cents) | | **10.4** | 21.2 |
| – Diluted (HK cents) | | **10.4** | 21.2 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **17,193** | 9,725 |
| Interests in leasehold land | | **403** | 427 |
| Investment properties | 12 | **845,208** | 847,597 |
| Available-for-sale financial assets | 13 | **—** | 8,102 |
| | | **862,804** | 865,851 |
| **Current assets** | | | |
| Inventories of properties | 14 | **127,424** | 247,699 |
| Trade receivables | 15 | **5,334** | 7,116 |
| Deposits, prepayments and other receivables | 16 | **6,648** | 17,638 |
| Tax prepaid | | **3,201** | 1,040 |
| Cash and cash equivalents | | **194,574** | 105,136 |
| | | **337,181** | 378,629 |
| **Current liabilities** | | | |
| Trade payables | 17 | **38,596** | 37,796 |
| Accruals, deposits received and other payables | 18 | **59,945** | 62,567 |
| Advances received from the pre-sale of properties under development and properties held for sale | | **19,495** | 123,569 |
| Amount due to a director | | **—** | 983 |
| Interest-bearing borrowings | 19 | **14,113** | 12,298 |
| Taxation liabilities | | **14,301** | 9,825 |
| | | **146,450** | 247,038 |
| **Net current assets** | | **190,731** | 131,591 |
| **Total assets less current liabilities** | | **1,053,535** | 997,442 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 19 | **74,259** | 38,205 |
| Deferred tax liabilities | | **208,913** | 203,599 |
| | | **283,172** | 241,804 |
| **Net assets** | | **770,363** | 755,638 |
| **EQUITY** | | | |
| Share capital | | **30,000** | 30,000 |
| Proposed final dividend | 10 | **—** | 5,400 |
| Other reserves | 20 | **663,228** | 646,932 |
| **Equity attributable to the owners of the Company** | | **693,228** | 682,332 |
| **Non-controlling interests** | | **77,135** | 73,306 |
| **Total equity** | | **770,363** | 755,638 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | 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 2013** | 30,000 | 24,150 | 32,432 | 44,206 | 23,514 | 3,090 | 12,000 | 445,791 | 615,183 | 65,589 | 680,772 |
| Dividend paid | — | — | — | — | — | — | (12,000) | — | (12,000) | — | (12,000) |
| **Transactions with owners** | — | — | — | — | — | — | (12,000) | — | (12,000) | — | (12,000) |
| Profit for the year | — | — | — | — | — | — | — | 63,514 | 63,514 | 5,793 | 69,307 |
| Other comprehensive income | | | | | | | | | | | |
| – Exchange gain on translation of financial statements of foreign operations | — | — | — | 15,635 | — | — | — | — | 15,635 | 1,924 | 17,559 |
| **Total comprehensive income for the year** | — | — | — | 15,635 | — | — | — | 63,514 | 79,149 | 7,717 | 86,866 |
| Transfer between reserves | — | — | 219 | — | — | — | — | (219) | — | — | — |
| Proposed final dividend (note 10) | — | — | — | — | — | — | 5,400 | (5,400) | — | — | — |
| **As at 31 December 2013 and 1 January 2014** | 30,000 | 24,150 | 32,651 | 59,841 | 23,514 | 3,090 | 5,400 | 503,686 | 682,332 | 73,306 | 755,638 |
| Dividend paid | — | — | — | — | — | — | (5,400) | — | (5,400) | — | (5,400) |
| **Transactions with owners** | — | — | — | — | — | — | (5,400) | — | (5,400) | — | (5,400) |
| Profit for the year | — | — | — | — | — | — | — | 31,273 | 31,273 | 5,646 | 36,919 |
| Other comprehensive income | | | | | | | | | | | |
| – Exchange loss on translation of financial statements of foreign operations | — | — | — | (14,977) | — | — | — | — | (14,977) | (1,817) | (16,794) |
| **Total comprehensive income for the year** | — | — | — | (14,977) | — | — | — | 31,273 | 16,296 | 3,829 | 20,125 |
| **As at 31 December 2014** | **30,000** | **24,150** | **32,651** | **44,864** | **23,514** | **3,090** | **—** | **534,959** | **693,228** | **77,135** | **770,363** |

* 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 2014

### 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 KY1-1111, 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 listing of the Company's shares has been transferred to the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 May 2014 after their initial listing on the Growth Enterprise Market ("GEM") of the Stock Exchange.

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

As disclosed in the announcement of the Company dated 14 December 2014, pursuant to the conditional agreement in relation to the sale and purchase of shares in the Company between Well Land International Limited ("Well Land") and the then controlling shareholders of the Company (i.e. First Beijing International Limited, Ease Gain Holdings Limited and Chosen Leader Limited), Well Land agreed to acquire 225,000,000 shares, representing 75% of the entire issued share capital of the Company at a cash consideration of HK$735,030,000.

Well Land was incorporated in the British Virgin Islands with limited liability on 27 May 2014, and it is an indirect wholly owned subsidiary of Xiamen C&D Inc., a Shanghai-listed company which is a subsidiary of Xiamen C&D Corporation Limited. Following the completion of the transaction on 23 December 2014, Well Land and Xiamen C&D Corporation Limited became the Company's immediate and ultimate holding companies respectively.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Hong Kong Companies Ordinance which concern the preparation of consolidated financial statements, which for the financial year and the comparative period continue to be those of the Hong Kong Companies Ordinance, Cap. 32, in accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance, Cap. 622 "Accounts and Audit" which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These consolidated financial statements also complied with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## 2. ADOPTION OF HKFRSs

### (a) Adoption of new/revised HKFRSs

In the current year, the Group has applied, for the first time, the following new or revised standards and amendments ("the new HKFRSs") issued by the HKICPA which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2014:

| | |
|---|---|
| Amendments to HKAS 32 | Presentation – Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-financial Assets |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment Entities |
| HK (IFRIC) - Interpretation 21 | Levies |

*Amendments to HKAS 32 – Presentation – Offsetting Financial Assets and Financial Liabilities*

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement. The amendments are applied retrospectively.

The adoption of the amendments has no impact on these consolidated financial statements as the Group does not have any offsetting arrangements.

*Amendments to HKAS 36 – Recoverable Amount Disclosures for Non-financial Assets*

The amendments limit the requirements to disclose the recoverable amount of an amount of an asset or cash generating unit (CGU) to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal. The amendments are applied retrospectively.

The directors concluded that the adoption of the amendments has no impact on the Group's financial position or performance as it affects the disclosure only.

## 2. ADOPTION OF HKFRSs *(Continued)*

### (a) Adoption of new/revised HKFRSs *(Continued)*

*Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities*

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

The adoption of the amendments has no impact on these consolidated financial statements as the Company is not an investment entity.

*HK (IFRIC) - Interpretation 21 – Levies*

HK (IFRIC) - Interpretation 21 clarifies that an entity recognises a liability to pay a levy imposed by government when the activity that triggers payment, as identified by the relevant legislation occurs. The interpretation has been applied retrospectively.

The adoption of the interpretation has no impact on these consolidated financial statements as it is consistent with the Group's previous application of its accounting policies on provisions.

## 2. ADOPTION OF HKFRSs *(Continued)*

### (b) New/revised HKFRSs that have been issued but are not yet effective

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

| | |
|---|---|
| Amendments to HKAS 1 | Disclosure Initiative [3] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements [3] |
| HKFRS 9 (2014) | Financial Instruments [5] |
| HKFRS 15 | Revenue from Contracts with Customers [4] |
| HKFRSs (Amendment) | Annual Improvements 2010 -2012 Cycle [2] |
| HKFRSs (Amendment) | Annual Improvements 2011 -2013 Cycle [1] |
| HKFRSs (Amendment) | Annual Improvements 2013 -2014 Cycle [3] |

1 Effective for annual periods beginning on or after 1 July 2014

2 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

3 Effective for annual periods beginning on or after 1 January 2016

4 Effective for annual periods beginning on or after 1 January 2017

5 Effective for annual periods beginning on or after 1 January 2018

*Amendments to HKAS 27 – Equity Method in Separate Financial Statements*

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

*HKFRS 9 (2014) – Financial Instruments*

HKFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 (2014) includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 (2014) carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 (2014) retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

## 2. ADOPTION OF HKFRSs *(Continued)*

### (b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

*HKFRS 15 – Revenue from Contracts with Customers*

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group's consolidated financial statements.

## 3. BASIS OF PREPARATION

The significant accounting policies that have been used in the preparation of consolidated financial statements are summarised below. These policies have been consistently applied to all years presented unless otherwise stated.

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 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.

## 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, commercial shops and car parking spaces; |
| 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.

## 4. SEGMENT INFORMATION *(Continued)*

### 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 2014** | | | | | |
| Reportable segment revenue | **52,499** | **280,870** | **9,485** | **1,799** | **344,653** |
| Reportable segment profit | **34,423** | **26,917** | **177** | **22** | **61,539** |
| Other segment information: | | | | | |
| Interest income | **285** | **722** | **12** | **3** | **1,022** |
| Amortisation of interests in leasehold land | **14** | **—** | **—** | **—** | **14** |
| Gain on changes in fair value of investment properties | **22,317** | **—** | **—** | **—** | **22,317** |
| Income tax expense | **8,969** | **533** | **—** | **—** | **9,502** |
| Depreciation of property, plant and equipment | **1,050** | **709** | **83** | **2** | **1,844** |

| | 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 2013** | | | | | |
| Reportable segment revenue | 48,592 | 310,269 | 19,488 | 5,432 | 383,781 |
| Reportable segment profit | 41,864 | 59,537 | 589 | 29 | 102,019 |
| Other segment information: | | | | | |
| Interest income | 121 | 121 | 11 | 5 | 258 |
| Amortisation of interests in leasehold land | 14 | — | — | — | 14 |
| Gain on changes in fair value of investment properties | 31,502 | — | — | — | 31,502 |
| Income tax expense | 11,100 | 12,385 | — | — | 23,485 |
| Depreciation of property, plant and equipment | 868 | 510 | 398 | 126 | 1,902 |

## 4. 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 |
|---|---|---|---|---|---|
| **As at 31 December 2014** | | | | | |
| Reportable segment assets | **874,874** | **285,666** | **5,112** | **545** | **1,166,197** |
| Reportable segment liabilities | **(268,472)** | **(117,000)** | **(4,246)** | **(87)** | **(389,805)** |
| Other segment information: | | | | | |
| Additions to non-current assets | **5,532** | **10** | **—** | **—** | **5,542** |

| | Property leasing HK$'000 | Property development HK$'000 | Building management services HK$'000 | Advisory and consultancy services HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **As at 31 December 2013** | | | | | |
| Reportable segment assets | 872,579 | 321,016 | 6,942 | 2,630 | 1,203,167 |
| Reportable segment liabilities | (267,285) | (175,422) | (11,321) | (3,368) | (457,396) |
| Other segment information: | | | | | |
| Additions to non-current assets | 5,146 | 1,266 | 33 | — | 6,445 |

## 4. SEGMENT INFORMATION *(Continued)*

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

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Reportable segment revenue | **344,653** | 383,781 |
| Inter-segment revenue elimination | **(2,052)** | (717) |
| **Consolidated revenue** | **342,601** | 383,064 |
| Reportable segment profit | **61,539** | 102,019 |
| Dividend income from available-for-sale financial assets | **—** | 982 |
| Unallocated income and expenses | **(12,362)** | (7,222) |
| Unallocated income tax expense | **(12,258)** | (26,472) |
| **Consolidated profit for the year** | **36,919** | 69,307 |

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Reportable segment assets | **1,166,197** | 1,203,167 |
| Available-for-sale financial assets | **—** | 8,102 |
| Unallocated corporate assets | **33,788** | 33,211 |
| **Total consolidated assets** | **1,199,985** | 1,244,480 |
| Reportable segment liabilities | **389,805** | 457,396 |
| Unallocated taxation liabilities | **14,301** | 9,825 |
| Unallocated deferred tax liabilities | **18,262** | 16,352 |
| Unallocated corporate liabilities | **7,254** | 5,269 |
| **Total consolidated liabilities** | **429,622** | 488,842 |

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

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

## 4. SEGMENT INFORMATION *(Continued)*

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 years ended 31 December 2014 and 2013, 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:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Building management income | **9,373** | 19,046 |
| Consultancy service income | **257** | 5,414 |
| Rental income of investment properties (note) | **52,101** | 48,335 |
| Sales of properties | **280,870** | 310,269 |
| | **342,601** | 383,064 |

Note: The Group has contingent rental income of investment properties of approximately HK$2,628,000 (2013: HK$2,526,000) for the year ended 31 December 2014. 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

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest income | | |
| – from bank deposits | **887** | 718 |
| – from structured bank deposits (note a) | **550** | — |
| | **1,437** | 718 |
| Dividend income from available-for-sale financial assets | **—** | 982 |
| Gain on disposals of property, plant and equipment | **—** | 5 |
| Gain on exchange differences, net | **—** | 1,379 |
| Government grants (note b) | **—** | 554 |
| Sundry income | **105** | 745 |
| | **1,542** | 4,383 |

## 6. OTHER INCOME *(Continued)*

Notes:

(a) During the year ended 31 December 2014, interest income have been derived from the structured bank deposits which carried effective interest rates ranging from 3.4% to 3.8% per annum and had original maturity of 31 days to 94 days (2013: Nil). The structured bank deposits are principal-protected yield enhancement bank deposits which are fully withdrawn upon the maturity. There were no structured bank deposits held by the Group as at 31 December 2014 (2013: Nil).

(b) During the year ended 31 December 2013, government grants have been received from 南寧市財政局 for one of the Group's subsidiaries carrying on business activities in this area. There are no unfulfilled conditions or contingencies related to these grants.

## 7. FINANCE COSTS

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest charges on: | | |
| Bank borrowings wholly repayable within five years | **205** | 235 |
| Bank borrowings not wholly repayable within five years | **5,679** | 3,725 |
| Other borrowings wholly repayable within five years | **—** | 2,245 |
| Total borrowing costs | **5,884** | 6,205 |
| Less: interest capitalised | **(5,884)** | (6,205) |
| | **—** | — |

The analysis shows the finance costs of bank and other 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$205,000 (2013: HK$235,000) for the year ended 31 December 2014.

The weighted average capitalisation rate of general borrowings was 3.52% (2013: 3.52%) per annum for the year.

## 8. PROFIT BEFORE INCOME TAX

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before income tax is arrived at after charging/(crediting): | | |
| Amortisation of interests in leasehold land | **14** | 14 |
| Auditor's remuneration | **1,054** | 1,006 |
| Cost of properties sold | **221,542** | 194,029 |
| Depreciation of property, plant and equipment | **1,981** | 2,009 |
| Donation | **1,025** | — |
| Loss/(Gain) on disposals of property, plant and equipment | **104** | (5) |
| Loss/(Gain) on exchange differences, net | **1,430** | (1,379) |
| Operating lease charges | **5,404** | 5,968 |
| Outgoings in respect of investment properties that generated rental income | **5,468** | 4,376 |

## 9. INCOME TAX EXPENSE

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Current income tax** | | |
| PRC corporate income tax | **9,937** | 19,117 |
| PRC land appreciation tax | **1,526** | 17,878 |
| | **11,463** | 36,995 |
| **Deferred tax** | | |
| PRC corporate income tax | **7,426** | 8,854 |
| PRC land appreciation tax | **550** | (2,428) |
| PRC withholding income tax | **2,321** | 6,536 |
| | **10,297** | 12,962 |
| **Total income tax expense** | **21,760** | 49,957 |

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

### 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 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")

Under the Provisional Rules on LAT Implementation Rules of the PRC implemented on 27 January 1995, all gains from the sales or transfer of land use rights, buildings and their attached facilities in the PRC are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including cost of land use rights, borrowing costs, business tax and all property development expenditures. There are certain exemptions available for the sale of ordinary residential properties if the appreciation values do not exceed 20% of the total deductible items (as defined in the relevant PRC tax laws). Sales of commercial properties are not eligible for such an exemption.

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% (2013: 5% to 7%) of its sales of properties in accordance with the authorised taxation method.

* The English translation of the company name is for reference only. The official name of this company is in Chinese.

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

**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 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:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Profit before income tax | **58,679** | 119,264 |
| Tax on profit before income tax, calculated at the rates applicable to profit in the tax jurisdictions concerned | **15,757** | 30,350 |
| Tax effect of non-deductible expenses | **1,086** | 1,796 |
| LAT deductible for calculation of income tax | **(932)** | (2,039) |
| LAT charges | **2,076** | 15,450 |
| Effect of withholding income tax at 10% on distributable profits of the Group's PRC subsidiaries | **2,321** | 6,536 |
| Others | **1,452** | (2,136) |
| Income tax expense | **21,760** | 49,957 |

## 10. DIVIDENDS

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Proposed final dividend (2013: HK1.8 cents per ordinary share) (note) | **—** | 5,400 |

Note: The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

For the year ended 31 December 2013, a final dividend of HK1.8 cents per ordinary share, amounting to HK$5,400,000, was declared and paid to the shareholders of the Company. This final dividend was reflected as an appropriation of retained earnings.

## 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 2014 of approximately HK$31,273,000 (2013: HK$63,514,000), and the ordinary shares of 300,000,000 (2013: 300,000,000) in issue during the year.

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

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

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **847,597** | 789,599 |
| Change in fair value of investment properties | **22,317** | 31,502 |
| Additions | **5,528** | 4,094 |
| Transfer to property, plant and equipment | **(9,750)** | — |
| Exchange differences | **(20,484)** | 22,402 |
| Carrying amount at 31 December | **845,208** | 847,597 |

The carrying amounts of the Group's investment properties attributable to the properties without the relevant title certificates, were approximately HK$3,494,000 (2013: HK$3,581,000) as at 31 December 2014. 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 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.

The bank borrowings are secured by investment properties with a carrying value of approximately HK$400,046,000 (2013: HK$770,729,000) as at 31 December 2014 (note 19).

## 12. INVESTMENT PROPERTIES *(Continued)*

The analysis of the net carrying amounts of investment properties according to lease periods are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| In PRC: | | |
| Leases of between 10 to 50 years | **845,208** | 837,847 |
| In Hong Kong: | | |
| Leases of between 10 to 50 years | **—** | 9,750 |

During the year ended 31 December 2014, the Group did not renew the lease to related company in respect of a parcel of office premise, which is now used for self-occupation and administrative purpose, and this portion has been reclassified to property, plant and equipment. The fair value of the property was approximately HK$9,750,000 immediately before the transfer.

Investment properties were valued at 31 December 2014 and 2013 by independent, professional qualified valuers, DTZ Debenham Tie Leung International Property Advisers (Guangzhou) Co., Ltd. ("DTZ"), who has the relevant experience in the location and category of properties being valued. DTZ have used direct capitalisation approach by capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the properties.

### Fair value hierarchy

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

| | **Fair value measurements categorised into** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair value** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Recurring fair value measurement** | | | | |
| **As at 31 December 2014** | | | | |
| Investment properties | — | — | 845,208 | 845,208 |
| **As at 31 December 2013** | | | | |
| Investment properties | — | — | 847,597 | 847,597 |

There were no transfers into or out of Level 3 during the year. The Group's policy is to recognise transfers between levels of fair value hierarchy in the reporting period in which they occur.

## 12. INVESTMENT PROPERTIES *(Continued)*

**Fair value hierarchy** *(Continued)*

Reconciliation of fair value measurements within Level 3 of fair value hierarchy are as below:

| | Investment properties HK$'000 |
|---|---|
| **Carrying amount at 1 January 2013** | 789,599 |
| Additions | 4,094 |
| Changes in fair value recognised in profit or loss during the year | 31,502 |
| Exchange differences | 22,402 |
| **Carrying amount at 31 December 2013 and 1 January 2014** | 847,597 |
| Additions | 5,528 |
| Transfer to property, plant and equipment | (9,750) |
| Changes in fair value recognised in profit or loss during the year | 22,317 |
| Exchange differences | (20,484) |
| **Carrying amount at 31 December 2014** | **845,208** |

Fair value adjustment of investment properties is recognised in the line item "Gain on changes in fair value of investment properties" on the face of the consolidated statement of comprehensive income.

Exchange adjustment of properties is recognised in other comprehensive income in "Exchange reserve".

The fair value of investment properties is determined using the direct capitalisation method by capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the properties. The fair value measurement is positively correlated to the market monthly rental rate and factors adjustment, and negatively correlated to capitalisation rate.

| | Valuation techniques | Significant unobservable inputs | Range As at 31 December 2014 | 2013 |
|---|---|---|---|---|
| Investment properties | Direct capitalisation method | Market monthly rental rate taking into account of individual factors such as location, environment, age, accessibility, floor, size, etc (RMB/sq.m.) | **33 - 1,150** | 32 - 1,250 |
| | | Capitlisation rate of reversionary income | **3.50% - 7.50%** | 3.50% - 7.50% |

## 12. INVESTMENT PROPERTIES *(Continued)*

**Fair value hierarchy** *(Continued)*

There was no change to the valuation techniques during the year. The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

## 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Equity investments stated at cost | | |
| – Unlisted | **—** | 8,102 |

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.

During the year ended 31 December 2014, the Group entered into agreement with an independent third party to dispose of all of its unlisted equity investments at a cash consideration of approximately HK$7,956,000 (or equivalent to RMB6,334,000), which was the same as its carrying amount. The disposal was completed on 21 March 2014.

## 14. INVENTORIES OF PROPERTIES

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Properties under development | **—** | 213,293 |
| Properties held for sale | **127,424** | 34,406 |
| | **127,424** | 247,699 |
| Properties under development include: | | |
| – cost of leasehold land | **—** | 69,280 |
| – construction costs and capitalised expenditure | **—** | 135,928 |
| – interests capitalised | **—** | 8,085 |
| | **—** | 213,293 |

The properties under development and properties held for sale are all located in the PRC. The relevant land use rights are on leases of 40 to 70 years.

As at 31 December 2013, properties held under development were scheduled to be sold within twelve months.

## 15. TRADE RECEIVABLES

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Trade receivables | **5,494** | 7,280 |
| Less: Impairment loss recognised | **(160)** | (164) |
| Trade receivables, net | **5,334** | 7,116 |

Receivables in respect of sales of properties are settled in accordance with the terms stipulated in the sale and purchase agreements. For the receivables derived from rental income, building management fee income and consultancy service income, the income is paid in accordance with the terms of the respective agreements and the balance is due on presentation.

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as at the end of reporting period:

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Current and within 1 month | **3,948** | 5,964 |
| 1-3 months | **849** | 381 |
| 4-6 months | **332** | 594 |
| 7-12 months | **127** | 93 |
| Over 12 months | **78** | 84 |
| | **5,334** | 7,116 |

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

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Neither past due nor impaired | **3,313** | 5,280 |
| Less than 1 month past due | **635** | 684 |
| 1-3 months past due | **849** | 381 |
| 4-6 months past due | **332** | 594 |
| 7-12 months past due | **127** | 93 |
| Over 12 months past due | **78** | 84 |
| | **5,334** | 7,116 |

At each reporting date, the Group reviews receivables for evidence of impairment on both individual and collective basis. Trade receivables that were neither past due nor impaired relate to a number of independent buyers for whom there was no recent history of default. Trade receivables that were past due but not impaired relate 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 of the Company believed 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.

## 15. TRADE RECEIVABLES *(Continued)*

The below table reconciles the impairment loss of trade receivables for the years ended 31 December 2014 and 2013.

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| As at 1 January | **164** | 159 |
| Exchange differences | **(4)** | 5 |
| As at 31 December | **160** | 164 |

The Group recognised impairment loss on trade receivables on individual assessment based on the accounting policy.

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.

The directors of the Company considered that the fair values of trade 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 at the reporting date.

## 16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Deposits | **1,387** | 3,122 |
| Prepayments | **626** | 1,533 |
| Other receivables | **4,635** | 12,983 |
| | **6,648** | 17,638 |

The directors of the Company 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

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Trade payables | **38,596** | 37,796 |

## 17. TRADE PAYABLES *(Continued)*

The credit terms of trade payables vary according to the terms agreed with different suppliers. Included in trade payables are trade creditors with the following ageing analysis, based on invoice dates, as of the end of reporting period:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 - 30 days | **28,192** | 136 |
| 31 - 90 days | **250** | 65 |
| 91 - 180 days | **111** | 58 |
| Over 180 days | **10,043** | 37,537 |
| As at 31 December | **38,596** | 37,796 |

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

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accruals and other payables | **26,427** | 26,138 |
| Deposits received | **17,839** | 23,291 |
| Receipts in advance | **15,679** | 13,138 |
| | **59,945** | 62,567 |

## 19. INTEREST-BEARING BORROWINGS

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Current** | | |
| Bank loans, secured | **14,113** | 12,298 |
| **Non-current** | | |
| Bank loans, secured | **74,259** | 38,205 |
| **Total borrowings** | **88,372** | 50,503 |

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

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Current** | | |
| Portion of bank loans due for repayment within one year | **9,607** | 6,921 |
| Portion of bank loans due for repayment after one year which contain repayment on demand clause | **4,506** | 5,377 |
| | **14,113** | 12,298 |
| **Non-current** | | |
| Portion of bank loans due for repayment after one year | **74,259** | 38,205 |
| | **88,372** | 50,503 |

The Group's bank loans are repayable as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year or on demand | **14,113** | 12,298 |
| In the second year | **8,736** | 6,549 |
| In the third to fifth year | **26,208** | 23,071 |
| After the fifth year | **39,315** | 8,585 |
| | **74,259** | 38,205 |
| | **88,372** | 50,503 |

## 19. INTEREST-BEARING BORROWINGS *(Continued)*

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

(a) certain of the Group's property, plant and equipment with carrying value of approximately HK$13,371,000 (2013: HK$3,800,000);

(b) certain of the Group's interests in leasehold land with carrying value of approximately HK$403,000 (2013: HK$427,000);

(c) certain of the Group's investment properties with carrying value of approximately HK$400,046,000 (2013: HK$770,729,000) (note 12);

(d) pledged bank deposits with carrying value of approximately HK$ 2,213,000 as at 31 December 2013; and

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

As at 31 December 2014, the bank loan amounted to approximately HK$82,995,000 (2013: HK$44,254,000) was denominated in RMB and bore floating interest rate ranging from 7.69% to 8.19% (2013: 7.86%) per annum. The bank loan of approximately HK$5,377,000 (2013: HK$6,249,000) was denominated in Hong Kong dollar and bore a floating interest rate of 3.5% (2013: 3.5%) per annum.

## 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is principally engaged in the businesses of property development, property leasing, property management and the provision of consultancy services. It is an award winning green building property developer and has more than 20 years of experience in developing and leasing properties and approximately 12 years of experience in managing properties in numerous locations in Nanning, the People's Republic of China (the "PRC").

The Group's results of operation may fluctuate or vary significantly from period to period depending on, among other factors, the overall development schedule of the development project(s) undertaken by the Group and the timing of sale and delivery of such development project(s).

In December 2014, the Group completed the Li Yuan Project (荔園項目) and approximately 29,079 square metres ("sq. m.") of residential units were sold and delivered to the purchasers for the Year.

The Group recorded a profit attributable to owners of the Company for the Year of approximately HK$31.3 million (2013: HK$63.5 million). It represented a decrease in the profit by approximately 50.8% as compared to that of the year of 2013. The primary reason for the decrease in profit was that the Group's major source of revenue had switched from the sales of Fond England (裕豐英倫) in the year of 2013 to the sales of Li Yuan in the Year, and the selling prices of Li Yuan's residential units were substantially lower than those of Fond England as Fond England is situated in a relatively prime location.

### Property development business

***Li Yuan***, a lohas residential project with a total saleable gross floor area (the "GFA") of over 46,000 sq. m. in New & Hi-Tech Industrial Development Zone, Nanning, was aggregately sold and pre-sold for over 70% as at 31 December 2014. For the Year, approximately 29,079 sq. m. of residential units with revenue of approximately HK$255.3 million were sold and delivered to the purchasers.

***Fond England***, a green residential project with a total GFA of over 150,000 sq. m. in Nanning, was aggregately sold and pre-sold for over 97% as at 31 December 2014. For the Year, approximately 3,179 sq. m. (including residential units and car parking spaces) with revenue of approximately HK$25.6 million were sold and delivered to the purchasers.

### Property leasing business

The leasing fee income from the Group's property leasing business was approximately HK$52.1 million for the Year (2013: HK$48.3 million).

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 2014, the Group's retail units (which were held for the purpose of leasing to independent third parties) comprised an aggregate rentable GFA of approximately 23,774 sq. m. in the PRC, of which an aggregate GFA of approximately 17,851 sq.m. in the PRC were 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$9.4 million (2013: HK$19.1 million) and HK$0.3 million (2013: HK$5.4 million) respectively were contributed to the Group's revenue for the Year.

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 property management services include setting property management procedures, providing security, maintaining the properties, landscaping, developing environmental protection policies, event planning and consultancy services. These business activities are carried out under 南寧金裕豐物業服務有限公司 (Nanning Golden Yu Feng Property Service Co., Limited*) (formerly known as 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 3 qualification allowing it to carry out property management of up to 200,000 sq. m. for each residential property and up to 50,000 sq. m. for each non-residential property it manages.

As of 31 December 2014, the Group derived its property management income mainly from Yu Feng Plaza (裕豐大廈), Wan Guo Plaza (萬國廣場) (formerly named Yu Feng High Street) and International Kitchen Supplies Centre (國際廚櫃中心) in Nanning.

For the property consultancy business, the Group provides consultancy services to independent third party property owners or permitted users on business promotion events, sub-leasing and management of their properties.

* *For identification purpose only*

## FINANCIAL REVIEW

### Revenue

During the Year, the Group's revenue was derived from (i) sales of properties (most of which were residential units of Li Yuan); (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 financial years indicated:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| Sales of properties | **280,870** | **82.0** | 310,269 | 81.0 |
| Rental income of investment properties | **52,101** | **15.2** | 48,335 | 12.6 |
| Building management income | **9,373** | **2.7** | 19,046 | 5.0 |
| Consultancy service income | **257** | **0.1** | 5,414 | 1.4 |
| | **342,601** | **100** | 383,064 | 100 |

Sales of properties decreased by about 9.5% from approximately HK$310.3 million (derived mainly from Fond England) in 2013 to approximately HK$280.9 million (derived mainly from Li Yuan) in 2014. Saleable GFA delivered for the financial years ended 31 December 2013 and 2014 were approximately 25,772 sq. m. and approximately 32,258 sq. m. respectively. The rise in saleable GFA in the Year as compared to last year did not bring up the revenue derived from the sales of properties for the Year because the selling prices of Li Yuan's residential units were substantially lower than those of Fond England (as Fond England is situated in a relatively prime location).

### Cost of Sales

Cost of sales increased by about 6.7% from approximately HK$244.6 million for the year ended 31 December 2013 to approximately HK$260.9 million for the Year. This result was also primarily attributable to the increase in the unit costs of saleable GFA sold and delivered in relation to Li Yuan during the Year.

### Gross Profit and Gross Profit Margin

The gross profit amounted to approximately HK$138.5 million and approximately HK$81.7 million for the years ended 31 December 2013 and 2014 respectively, representing a gross profit margin of approximately 36.1% and 23.8% respectively. The overall decrease in gross profit margin was mainly due to the decrease in gross profit margin of the sales of properties in the Year.

### Other Income

Other income decreased from approximately HK$4.4 million in the previous financial year to approximately HK$1.5 million for the Year. The main reason for the decrease was that dividend income was no longer received after the disposal of the available-for-sale financial assets in the Year.

**Borrowing Costs**

Borrowing costs incurred for the construction projects and improvement in investment properties are capitalised during the Year. Other borrowing costs are expensed when incurred.

Captialised borrowing costs decreased from approximately HK$6.2 million for the year ended 31 December 2013 to approximately HK$5.9 million for the Year. The decrease was mainly due to the repayment of bank loans advanced for the purpose of construction projects.

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

The gain on changes in fair value of investment properties for the Year decreased to approximately HK$22.3 million from approximately HK$31.5 million in the previous financial year. The decrease reflected the adjustments in the property value in Nanning during the Year.

**Administrative Expenses**

Administrative expenses decreased by about 6.3% to approximately HK$39.9 million for the Year from approximately HK$42.6 million for the year ended 31 December 2013. This was primarily due to the decrease in staff costs, which was partially offset by (i) an one-off professional expense amounting to approximately HK$1.8 million incurred in connection with the transfer of listing of the Company's shares from the Growth Enterprise Market ("GEM") to the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); and (ii) the charitable donations of approximately HK$1.0 million made by the Group during the Year.

**Selling Expenses**

Selling expenses decreased by about 44.0% to approximately HK$7.0 million for the Year from approximately HK$12.5 million for the year ended 31 December 2013, primarily due to reduction in promotion expenses incurred in the Year.

**Profit before Income Tax**

As a cumulative effect of the foregoing factors, the Group had recorded a profit before income tax of approximately HK$58.7 million for the Year, representing a decrease of approximately 50.8% from approximately HK$119.3 million in the previous financial year.

**Income Tax Expense**

Income tax expense decreased from approximately HK$50.0 million in the previous financial year to approximately HK$21.8 million for the Year. The decrease in income tax was mainly due to a decrease in land appreciation tax ("LAT") and income tax payable in the PRC resulting from the drop in assessable appreciation value and profit margin of properties delivered to customers in relation to Li Yuan during the Year.

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

The profit attributable to the owners of the Company decreased by about 50.7% from approximately HK$63.5 million in the previous financial year to approximately HK$31.3 million for the Year.

**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 received in advance from the pre-sale of properties, which were used to finance its business operations and investment in construction projects. The Group's liquidity position was well-managed in the Year.

The Group continues to adopt a prudent financing policy and sustain a sound capital structure with healthy cashflow. As at 31 December 2014, the Group's cash and cash equivalents and restricted cash amounted to approximately HK$194.6 million (2013: HK$105.1 million) while total assets and net assets (after deducting non-controlling interests) were approximately HK$1,200.0 million (2013: HK$1,244.5 million) and HK$693.2 million (2013: HK$682.3 million) respectively. As at 31 December 2014, the Group's working capital amounted to approximately HK$190.7 million (2013: HK$131.6 million). As at 31 December 2014, the Group did not have any net debt gearing and recorded a net cash balance of HK$106.2 million, while the Group recorded a net cash balance HK$54.6 million as at 31 December 2013.

As at 31 December 2014, the Group had (i) bank borrowings of HK$83.0 million (2013: HK$44.3 million) denominated in Renminbi ("RMB") and bore a floating interest rate of 7.69% to 8.19% (2013: 7.86%) per annum, and (ii) a loan facility of approximately HK$5.4 million (2013: HK$6.2 million) denominated in Hong Kong dollar and bore a floating interest rate of 3.5% per annum. No particular trend of seasonality was observed for the Group's borrowing requirements for the Year.

The Group's gearing ratio (total borrowings divided by total equity) returned to 11.5% as at 31 December 2014 (2013: 6.7%) as the total borrowings increased in the Year.

Of the total borrowings, approximately HK$14.1 million was repayable within one year while approximately HK$74.3 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 had arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. The balance as at 31 December 2014 was approximately HK$112.5 million (2013: HK$257.1 million). The decrease was mainly attributable to the termination of the guarantees upon the issuance of the real estate ownership certificates to the purchasers and the settlement of mortgage loan by purchasers of Fond England in the Year.

**Capital Commitments**

Capital commitments were those contracts concluded but not provided for the construction of properties under development. There was no contracted capital commitment as at 31 December 2014 (2013: HK$84.1 million). The decrease was attributable to the completion of Li Yuan Project in the Year.

**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 interest in leasehold land, property, plant and equipment, investment properties, bank deposits and assignments of rental income arising from the tenancy agreements of subsidiaries' certain properties.

**Capital Structure**

As at 31 December 2014, the Company's issued share capital was HK$30,000,000, divided into 300,000,000 ordinary shares of HK$0.1 each (2013: HK$30,000,000 divided into 300,000,000 shares of HK$0.1 each).

**Foreign Currency Exposure**

The business operations of the Company's subsidiaries were conducted mainly in the PRC with revenues and expenses of the Company's subsidiaries denominated mainly in RMB.

Among the Group's cash and cash equivalents (which include bank deposits and net proceeds derived from the Company's listing on GEM in December 2012), 1.3% (2013: 13.6%) were denominated in Hong Kong dollar and 98.7% (2013: 86.4%) were denominated in RMB.

Among the Group's total borrowings of approximately HK$88.4 million (2013: HK$50.5 million), 6.1% (2013: 12.4%) were denominated in Hong Kong dollar and 93.9% (2013: 87.6%) were denominated in RMB.

Any significant exchange rate fluctuations of Hong Kong dollar against RMB as the Group's functional currency may have a financial impact on the Group.

As the Directors considered the Group's foreign exchange risk to be insignificant, the Group did not use any financial instruments for hedging purposes during the Year.

**Contingent Liabilities**

As at 31 December 2014, the Group did not have any material contingent liabilities (2013: Nil).

**Employees and Emolument Policy**

As at 31 December 2014, the Group employed a total of 103 full-time employees (2013: 193 employees). Total staff costs, including Directors' emoluments, of the Group were approximately HK$25.9 million (2013: HK$36.0 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 monthly salary, year-end bonuses are offered to those staff with outstanding performance. A share option scheme has been adopted to attract and retain eligible employees to contribute to the Group.

The same remuneration philosophy is applicable to the Directors. Apart from benchmarking against the market, the Company looks at individual competence and contributions and the affordability of the Company in determining the exact level of remuneration for each Director.

## OUTLOOK

Looking forward, the Group will continue to adhere to the strategy previously formulated of putting emphasis on quality, comfort, and, above all, environmental friendliness in the property development, property leasing and property related management businesses. The Group strives to expand its (i) property leasing, (ii) property related management and consultancy, and (iii) property development businesses by the 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. The Group will also proactively explore business and/or investment opportunities for the Group, both within and outside Nanning.

## FINAL DIVIDEND

The Board does not recommend the payment of any final dividend in respect of the Year (2013: HK 1.8 cents).

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "AGM"), the register of members of the Company will be closed from Friday, 24 April 2015 to Tuesday, 28 April 2015 (both days inclusive) during which no transfer of shares in the Company may be effected. In order to qualify for attending the AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Thursday, 23 April 2015.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a set of codes of conduct pursuant to Rules 5.48 to 5.67 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") from 1 January 2014 to 25 May 2014 and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from 26 May 2014 to 31 December 2014 as its own code of conduct for dealings in securities of the Company by its Directors. The Company had made specific enquiries of all Directors and each of them confirmed that they had complied with the required standard of dealings and its code of conduct regarding securities transactions by Directors for the Year.

## 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 (i) Appendix 15 to the GEM Listing Rules during the period from 1 January 2014 to 25 May 2014; and (ii) Appendix 14 to the Listing Rules during the period from 26 May 2014 to 31 December 2014 by adopting the code provisions and certain recommended best practices set out in the CG Code as its own code of corporate governance. Throughout the Year, the Company had complied with all the code provisions set out in the CG Code, except for the deviation from code provision A.2.1 of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and assumed by different individuals to ensure a balance of power and authority so that power is not concentrated in any Board member. Dr. Lee Kai Hung ("Dr. Lee") acted as both the chairman and the chief executive officer of the Company during the Year and up to 9 February 2015. The Board is of the view that given that Dr. Lee had been primarily responsible for leading the strategic planning and business development of the Group, the 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 Board considers that the arrangement was overall beneficial to the management and development of the Group's business.

Upon the completion of the mandatory unconditional cash offer as disclosed in the Company's announcement dated 10 February 2015, Mr. Zhuang Yuekai and Mr. Shi Zhen were appointed as chairman and chief executive officer of the Company respectively on 10 February 2015 and the roles of chairman and chief executive officer have been separated since then.

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, which will be released in due course.

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

During the Year, the Company did not redeem any of its listed securities nor did the Company or any of its subsidiaries purchase or sell any such securities.

## REVIEW OF RESULTS BY AUDIT COMMITTEE

The Audit Committee of the Company (comprising all the three independent non-executive Directors, namely Mr. Wong Chi Wai (committee chairman), Mr. Wong Tat Yan, Paul and Mr. Chan Chun Yee) has reviewed with management the audited consolidated financial statements of the Company for the Year.

By Order of the Board
**South West Eco Development Limited**
**Zhuang Yuekai**
*Chairman*

Hong Kong, 16 March 2015

*As at the date of this announcement, the Board of the Company comprises six executive Directors, namely Mr. Zhuang Yuekai (Chairman), Mr. Shi Zhen (Chief Executive Officer), Ms. Wang Xianrong, Ms. Zhao Chengmin, Dr. Lee Tse Ching, Elaine (also known as Dr. Eick Lee Tse Ching, Elaine) and Mr. Cheng Bun; and three independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Wong Tat Yan, Paul and Mr. Chan Chun Yee.*

*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.*