

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

Third Quarterly 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.

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Revenue	3	51,118	170,734	329,381	346,396
Cost of sales		(31,314)	(111,098)	(200,422)	(227,437)
Gross profit		19,804	59,636	128,959	118,959
Other income	4	557	602	2,709	2,128
Gain/(Loss) on changes in fair value of investment properties		10,647	(968)	12,701	48,986
Administrative expenses		(11,410)	(14,525)	(30,322)	(40,579)
Selling expenses		(2,903)	(2,560)	(10,145)	(6,499)
Profit before income tax	6	16,695	42,185	103,902	122,995
Income tax expense	7	(7,315)	(16,367)	(46,222)	(50,530)
Profit for the period		9,380	25,818	57,680	72,465
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations		1,959	5,624	11,266	176
Other comprehensive income for the period		1,959	5,624	11,266	176
Total comprehensive income for the period		11,339	31,442	68,946	72,641
Profit for the period attributable to:					
Owners of the Company		8,358	23,804	53,246	64,626
Non-controlling interests		1,022	2,014	4,434	7,839
		9,380	25,818	57,680	72,465
Total comprehensive income attributable to:					
Owners of the Company		10,099	28,779	63,268	64,752
Non-controlling interests		1,240	2,663	5,678	7,889
		11,339	31,442	68,946	72,641
Earnings per share for profit attributable to the owners of the Company	9				
– Basic (HK cents)		2.79	10.58	17.75	28.72
– Diluted (HK cents)		2.79	10.58	17.75	28.72

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
As at 1 January 2012 (audited)	—	—	17,731	39,887	26,043	3,090	—	393,315	480,066	56,002	536,068
Dividend to other shareholders	—	—	—	—	—	—	—	—	—	(123)	(123)
Transactions with owners	—	—	—	—	—	—	—	—	—	(123)	(123)
Profit for the nine months ended 30 September 2012	—	—	—	—	—	—	—	64,626	64,626	7,839	72,465
Other comprehensive income – Exchange gain on translation of financial statements of foreign operations	—	—	—	126	—	—	—	—	126	50	176
Total comprehensive income for the nine months ended 30 September 2012	—	—	—	126	—	—	—	64,626	64,752	7,889	72,641
Transfer between reserves	—	—	12,204	—	—	—	—	(12,204)	—	—	—
As at 30 September 2012 (unaudited)	—	—	29,935	40,013	26,043	3,090	—	445,737	544,818	63,768	608,586
As at 1 January 2013 (audited)	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
Transactions with owners	—	—	—	—	—	—	(12,000)	—	(12,000)	—	(12,000)
Profit for the nine months ended 30 September 2013	—	—	—	—	—	—	—	53,246	53,246	4,434	57,680
Other comprehensive income – Exchange gain on translation of financial statements of foreign operations	—	—	—	10,022	—	—	—	—	10,022	1,244	11,266
Total comprehensive income for the nine months ended 30 September 2013	—	—	—	10,022	—	—	—	53,246	63,268	5,678	68,946
Transfer between reserves	—	—	13	—	—	—	—	(13)	—	—	—
As at 30 September 2013 (unaudited)	30,000	24,150	32,445	54,228	23,514	3,090	—	499,024	666,451	71,267	737,718

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2013

1. GENERAL INFORMATION

South West Eco Development Limited (the "Company", together with its subsidiaries, the "Group") 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 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 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 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 all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The unaudited condensed consolidated financial statements have been prepared under historical cost basis except for investment properties, which are stated at fair value. The accounting policies used in the preparation of these results are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

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. REVENUE

Revenue from the Group's principal activities recognised during the periods are as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Building management income	4,848	5,000	14,339	14,918
Consultancy service income	464	768	2,833	5,071
Rental income of investment properties (note)	12,014	12,579	35,787	41,101
Sales of properties	33,792	152,387	276,422	285,306
	51,118	170,734	329,381	346,396

Note:

The Group has contingent rental income of investment properties of approximately HK\$630,000 and HK\$623,000 for the three months ended 30 September 2013 and 2012 respectively and approximately HK\$1,838,000 and HK\$1,944,000 for the nine months ended 30 September 2013 and 2012 respectively. 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.

4. OTHER INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Bank interest income	206	74	554	271
Dividend income from available-for-sale financial assets	4	—	979	899
Gain on exchange differences, net	166	347	865	347
Gain on disposals of property, plant and equipment	5	—	5	36
Government grant	—	—	—	184
Sundry income	176	181	306	391
	557	602	2,709	2,128

5. FINANCE COSTS

	For the three months ended 30 September		For the nine months ended 30 September	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Interest charges on:				
Bank borrowings wholly repayable within five years	—	—	—	566
Bank borrowings not wholly repayable within five years	1,017	1,063	3,058	3,337
Other borrowings wholly repayable within five years	295	949	2,237	2,848
Total borrowing costs	1,312	2,012	5,295	6,751
Less: interest capitalised	(1,312)	(2,012)	(5,295)	(6,751)
	—	—	—	—

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\$58,000 and HK\$65,000 for the three months ended 30 September 2013 and 2012 respectively and approximately HK\$179,000 and HK\$120,000 for the nine months ended 30 September 2013 and 2012 respectively.

6. PROFIT BEFORE INCOME TAX

	For the three months ended 30 September		For the nine months ended 30 September	
	2013	2012	2013	2012
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Profit before income tax is arrived at after charging/(crediting):				
Amortisation of interests in leasehold land	3	3	10	10
Auditors' remuneration	83	—	225	193
Cost of properties sold	21,102	88,453	160,545	190,601
Depreciation of property, plant and equipment	521	517	1,521	1,505
Gain on exchange differences, net	(166)	(555)	(865)	(347)
Gain on disposals of property, plant and equipment	(5)	—	(5)	(36)
Operating lease charges	1,467	1,528	4,342	4,140
Outgoings in respect of investment properties that generated rental income	1,065	928	3,258	3,440

7. INCOME TAX EXPENSE

	For the three months ended 30 September		For the nine months ended 30 September	
	2013	2012	2013	2012
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(Unaudited) HK\$'000
Current income tax				
PRC corporate income tax	2,081	7,366	23,116	12,505
PRC land appreciation tax	1,974	8,814	15,941	16,089
PRC withholding income tax	—	(6)	—	6,182
	4,055	16,174	39,057	34,776
Deferred tax	3,260	193	7,165	15,754
Total income tax expense	7,315	16,367	46,222	50,530

7. 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 nine months ended 30 September 2013.

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 reporting periods, 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 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 the 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.

8. DIVIDENDS

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

9. 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 and nine months ended 30 September 2013 of approximately HK\$8,358,000 and HK\$53,246,000 respectively (three months and nine months ended 30 September 2012: HK\$23,804,000 and HK\$64,626,000 respectively), and of the weighted average number of 300,000,000 and 300,000,000 (three months and nine months ended 30 September 2012: 225,000,000 and 225,000,000) ordinary shares in issue during the respective periods, assuming that 225,000,000 shares issued pursuant to the Reorganisation had been in issue throughout the three months and nine months ended 30 September 2012.

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

BUSINESS REVIEW

The Group is principally engaged in the businesses of property development, property leasing, property management and the provision of consultancy services in Nanning, Guangxi, the PRC. The Group is an award winning green building property developer and an ISO14001 and ISO 9001 certified property manager in the city of Nanning, Guangxi. Founded in 1993, the Group has more than 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 a total gross floor area ("GFA") of over 150,000 square meters ("sq.m.") in Nanning, was aggregately sold and pre-sold for over 94% as at 30 September 2013. In the nine months ended 30 September 2013, approximately 21,024 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\$276.4 million for the nine months ended 30 September 2013.

With regards to the **Li Yuan** property development project (the "Li Yuan Project") with a site area of 9,074 sq.m., it is a residential and commercial project located in New & Hi-Tech Industrial Development Zone in Nanning. As of 30 September 2013, the Group paid approximately HK\$63.7 million as land premium to the local government for the development, and 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\$35.8 million for the nine months ended 30 September 2013 (2012: HK\$41.1 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 30 September 2013, the Group's retail units (which were held for the purpose of leasing to independent third parties) comprised an aggregate rentable GFA of approximately 23,658 sq.m. in the PRC, of which an aggregate GFA of approximately 17,531 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\$14.3 million (2012: HK\$14.9 million) and HK\$2.8 million (2012: HK\$5.1 million) respectively were contributed to the Group's revenue for the nine months ended 30 September 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 environmental protection policies, event planning and consultancy services. These business activities are carried out under 南寧金裕豐物業管理有限公司 (Nanning Golden Yu Feng Property Management Co., Limited*) (an indirect non-wholly owned subsidiary of the Company) ("Golden Yu Feng"), which holds a valid Class 2 qualification allowing it to carry out property management of up to 300,000 sq.m. for each residential property and up to 80,000 sq.m. for each non-residential property it manages. As of 30 September 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 nine months ended 30 September 2013 and 2012, the Group's revenue was derived from (i) sales of properties (most of which were residential units, commercial units and car parks of Fond England); (ii) rental income of investment properties owned by the Group and independent third parties; (iii) building management income; and (iv) consultancy service income.

Sales of properties decreased by 3.1% from approximately HK\$285.3 million in the nine months ended 30 September 2012 to approximately HK\$276.4 million in the corresponding period in 2013. This decrease was primarily due to a decrease in the saleable GFA sold and delivered in respect of Fond England during the mentioned period in 2013. Saleable GFA sold and delivered in respect of Fond England for the nine months ended 30 September 2013 and 2012 were approximately 21,024 sq.m. and approximately 30,393 sq.m. respectively.

Cost of Sales

Cost of sales decreased by approximately 11.9% to approximately HK\$200.4 million for the nine months ended 30 September 2013 from approximately HK\$227.4 million for the nine months ended 30 September 2012. This result was also primarily attributable to the decrease in saleable GFA sold and delivered in relation to Fond England during the nine months ended 30 September 2013.

Gross Profit and Gross Profit Margin

The gross profit amounted to approximately HK\$129.0 million and approximately HK\$119.0 million for the nine months ended 30 September 2013 and 2012 respectively, representing a gross profit margin of approximately 39.2% and 34.3% respectively. The overall increase in gross profit margin was mainly due to a slight increase in gross profit margin in the sales of properties segment in the nine months ended 30 September 2013.

Other Income

Other income increased from approximately HK\$2.1 million in the previous corresponding period to approximately HK\$2.7 million for the nine months ended 30 September 2013. The increase mainly came from the increase in bank interest income and exchange gain.

Borrowing Costs

Borrowing costs incurred for the construction and improvement in investment properties are capitalised during the nine months ended 30 September 2013.

Capitalised borrowing costs decreased from approximately HK\$6.8 million for the nine months ended 30 September 2012 to approximately HK\$5.3 million for the nine months ended 30 September 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 nine months ended 30 September 2013 of approximately HK\$12.7 million while there was a gain of approximately HK\$49.0 million in the previous corresponding financial period. This reflected property value in Nanning continues to be in an upward trend but in a slower pace.

Administrative Expenses

Administrative expenses decreased by approximately 25.3% to approximately HK\$30.3 million for the nine months ended 30 September 2013 from approximately HK\$40.6 million for the nine months ended 30 September 2012, primarily because there was a listing expenses of approximately HK\$10.6 million incurred for the nine months ended 30 September 2012.

Selling Expenses

Selling expenses increased from approximately HK\$6.5 million in the previous corresponding period to approximately HK\$10.1 million for the nine months ended 30 September 2013. The main reason for the increase came from the increase in the promotion costs for the pre-sale of the properties under the Li Yuan Project during the nine months ended 30 September 2013.

Profit before Income Tax

As a cumulative effect of the foregoing factors, the Group had recorded a profit before tax of approximately HK\$103.9 million for the nine months ended 30 September 2013, representing a decrease of approximately 15.5% from approximately HK\$123.0 million for the nine months ended 30 September 2012.

Income Tax Expenses

Income tax expense decreased from approximately HK\$50.5 million in the previous corresponding financial period to approximately HK\$46.2 million for the nine months ended 30 September 2013. The decrease in income tax was mainly derived from the decrease in deferred tax arising from lower gain on changes in fair value of investment properties compared to the previous corresponding financial period.

Profit for the Period attributable to the Owners of the Company

The profit for the period attributed to the owners of the Company decreased by approximately 17.6% from approximately HK\$64.6 million in the previous corresponding financial period to approximately HK\$53.2 million for the nine months ended 30 September 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, leasing and management businesses with emphasis on quality, comfort, and, above all, environmental friendliness. The Group aims to expand its (i) property leasing, (ii) property related management and consultancy, and (iii) property development businesses by application of green technology, including the operation and management of featured theme shopping mall, commercial and residential properties and the development of property projects with a green-focus.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY

As at 30 September 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 September 2013.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY

As at 30 September 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 underlying shares of the Company 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 September 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 or any member of the Group (including options or rights to subscribe for such securities), 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 September 2013.

COMPETING INTEREST OF DIRECTORS, CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE ASSOCIATES

As at 30 September 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 nine months ended 30 September 2013.

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 or any of its subsidiaries during the nine months ended 30 September 2013.

AUDIT COMMITTEE

The Group has established an audit committee on 23 November 2012 with written terms of reference in compliance with the Corporate Governance 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 condensed consolidated financial statements of the Group for the nine months ended 30 September 2013 and is of the opinion that such statements comply with the applicable accounting standards and requirements, and that adequate disclosure have been made.

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

Hong Kong, 8 November 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