合景泰富地產

KWG PROPERTY HOLDING LIMITED
合景泰富地產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1813)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

HIGHLIGHTS

- Revenue for the six months ended 30 June 2010 amounted to RMB2,342.1 million, an increase of 160.1% compared with the corresponding period in 2009.
- Profit attributable to owners of the parent for the period amounted to RMB407.3 million, representing an increase of 140.9% compared with the corresponding period in 2009.
- Gross profit margin for the period was 42.4%, a decrease from 43.8% in the corresponding period in 2009.
- Net profit margin for the period was 17.4%, a decrease from 18.7% in the corresponding period in 2009.
- Earnings per share for the period amounted to RMB14.1 cents, an increase from RMB6.5 cents in the corresponding period in 2009.

INTERIM RESULTS

The board of directors (the "Board") of KWG Property Holding Limited ("KWG Property" or the "Company") is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009, the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2010 together with audited comparative figures as at 31 December 2009, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2010	2009
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	4	**2,342,132**	900,568
Cost of sales		**(1,348,587)**	(506,043)
Gross profit		**993,545**	394,525
Other income and gains	4	**28,907**	28,061
Selling and marketing costs		**(101,494)**	(58,615)
Administrative expenses		**(170,550)**	(113,555)
Other operating expenses, net		**(760)**	(747)
Fair value gains on investment properties, net		**2,292**	32
Finance costs	5	**(4,961)**	—
Share of profits and losses of:			
Associates		**(433)**	—
Jointly-controlled entities		**13,705**	30,609
PROFIT BEFORE TAX	6	**760,251**	280,310
Income tax expenses	7	**(352,903)**	(111,847)
PROFIT FOR THE PERIOD		**407,348**	168,463
Attributable to:			
Owners of the parent		**407,346**	169,108
Non-controlling interests		**2**	(645)
		407,348	168,463
Earnings per share attributable to owners of the parent — Basic and diluted	8	**RMB14.1 cents**	RMB6.5 cents
Dividends	9	**—**	—

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**407,348**	168,463
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(127)**	(22,777)
Share of other exchange differences on translation of jointly-controlled entities	**3,766**	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**3,639**	(22,777)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**410,987**	145,686
Attributable to:		
Owners of the parent	**410,985**	146,351
Non-controlling interests	**2**	(665)
	410,987	145,686

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 June	31 December
		2010	2009
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,141,196**	981,508
Investment properties		**3,485,835**	3,501,460
Land use rights		**571,010**	572,833
Interests in associates		**1,558,642**	1,348,990
Interests in jointly-controlled entities		**1,999,386**	1,228,036
Deferred tax assets		**427,684**	398,325
Long term prepayment		**516,000**	—
Total non-current assets		**9,699,753**	8,031,152
CURRENT ASSETS			
Properties under development		**14,334,408**	13,951,102
Completed properties held for sale		**2,208,220**	2,300,415
Trade receivables	10	**73,239**	147,413
Prepayments, deposits and other receivables		**1,353,550**	453,039
Due from a jointly-controlled entity		**47,016**	46,999
Taxes recoverable		**85,662**	24,492
Restricted cash		**1,034,029**	1,069,876
Cash and cash equivalents		**4,824,473**	2,540,698
Total current assets		**23,960,597**	20,534,034
CURRENT LIABILITIES			
Trade payables	11	**1,287,294**	1,415,470
Other payables and accruals		**8,013,140**	5,222,361
Due to an associate		—	129,956
Interest-bearing bank loans		**2,696,062**	2,566,628
Taxes payable		**1,607,453**	1,418,808
Total current liabilities		**13,603,949**	10,753,223
NET CURRENT ASSETS		**10,356,648**	9,780,811
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,056,401**	17,811,963

		As at	
		30 June	31 December
		2010	2009
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**7,782,943**	6,078,852
Deferred tax liabilities		**608,016**	624,788
Deferred revenue		**700,000**	700,000
Other non-current liabilities		**300,000**	—
Total non-current liabilities		**9,390,959**	7,403,640
Net assets		**10,665,442**	10,408,323
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	**280,485**	280,538
Treasury shares		**—**	(3,041)
Reserves		**10,374,951**	9,982,514
Proposed final dividends		**—**	144,658
		10,655,436	10,404,669
Non-controlling interests		**10,006**	3,654
Total equity		**10,665,442**	10,408,323

Notes:

1. GENERAL INFORMATION

KWG Property Holding Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the period, the Company and its subsidiaries were principally engaged in the property development, property investment, hotel operation and provision of property management services in the People's Republic of China (the "PRC").

The unaudited condensed consolidated interim financial information was reviewed by the audit committee of the Company and approved by the Board for issue on 31 August 2010.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 'Interim Financial Reporting', issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The unaudited condensed consolidated interim financial information should be read in conjunction with the audited financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations).

3. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. The accounting policies adopted are consistent with the Group's audited financial statements for the year ended 31 December 2009, except for the adoption of the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the annual reporting period beginning on or after 1 January 2010.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
HK(IFRIC) — Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary*
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC) — Int 9 and HK(IFRIC) — Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

The adoption of the new interpretations and amendments has had no significant financial effect on these unaudited condensed consolidated interim financial information.

4. REVENUE, OTHER INCOME AND GAINS AND SEGMENT INFORMATION

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue:		
Sales of properties	**2,229,682**	832,403
Gross rental income	**57,418**	44,712
Hotel operation income	**22,147**	—
Property management fees	**32,885**	23,453
	2,342,132	900,568
Other income and gains:		
Gain/(loss) on disposal of investment properties, net	**334**	(1,264)
Bank interest income	**14,069**	1,963
Foreign exchange differences, net	**5,243**	23,389
Others	**9,261**	3,973
	28,907	28,061

For management purpose, the Group is organised into four operating segments as follow:

(i) Property development: Sale of properties
(ii) Property investment: Leasing of properties
(iii) Hotel operation: Operation of a hotel
(iv) Property management: Provision of property management services

The property development projects undertaken by the Group during the periods are all located in the PRC.

The segment results for the six months ended 30 June 2010 are as follows:

	Property development *(Note)* *RMB'000* **(Unaudited)**	**Property investment** *RMB'000* **(Unaudited)**	**Hotel operation** *RMB'000* **(Unaudited)**	**Property management** *RMB'000* **(Unaudited)**	**Total** *RMB'000* **(Unaudited)**
Segment revenue:					
Sales to external customers	**2,229,682**	**57,418**	**22,147**	**32,885**	**2,342,132**
Segment results	**815,446**	**59,047**	**(984)**	**7,510**	**881,019**
Reconciliations:					
Interest income and unallocated income					**28,573**
Unallocated expenses					**(144,380)**
Finance costs					**(4,961)**
Profit before tax					**760,251**
Income tax expenses					**(352,903)**
Profit for the period					**407,348**

The segment results for the six months ended 30 June 2009 are as follows:

	Property development *(Note)* *RMB'000* (Unaudited)	Property investment *RMB'000* (Unaudited)	Hotel operation *RMB'000* (Unaudited)	Property management *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Segment revenue:					
Sales to external customers	832,403	44,712	—	23,453	900,568
Segment results	303,854	42,618	—	3,448	349,920
Reconciliations:					
Interest income and unallocated income					29,325
Unallocated expenses					(98,935)
Finance costs					—
Profit before tax					280,310
Income tax expenses					(111,847)
Profit for the period					168,463

Note: The segment results include share of profits and losses of jointly-controlled entities and associates.

5. FINANCE COSTS

	Six months ended 30 June 2010 *RMB'000* (Unaudited)	2009 *RMB'000* (Unaudited)
Interest on bank loans	**291,488**	224,685
Less: Interest capitalised	**(286,527)**	(224,685)
	4,961	—

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June 2010 *RMB'000* (Unaudited)	2009 *RMB'000* (Unaudited)
Cost of properties sold	**1,327,178**	500,658
Depreciation	**15,922**	5,734
Amortisation of land use rights	**4,938**	1,652
Less: Amount capitalised in assets under construction	**(4,230)**	(1,343)
	708	309
Gain on disposal of items of property, plant and equipment	**(195)**	—
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**93,847**	62,376
Pension scheme contributions	**5,284**	2,590
Equity-settled share option expenses	**10,088**	—
	109,219	64,966
Less: Amount capitalised in assets under construction, properties under development and investment properties under development	**(31,085)**	(24,694)
	78,134	40,272

7. INCOME TAX EXPENSES

	Six months ended 30 June 2010 *RMB'000* (Unaudited)	2009 *RMB'000* (Unaudited)
Current — PRC		
Corporate income tax ("CIT")	**185,750**	69,057
Land appreciation tax ("LAT")	**213,284**	69,462
	399,034	138,519
Deferred	**(46,131)**	(26,672)
Total tax charge for the period	**352,903**	111,847

Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2010 and 2009.

PRC corporate income tax

The PRC CIT in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the six months ended 30 June 2010 and 2009, based on the existing legislation, interpretations and practices in respect thereof.

PRC land appreciation tax

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share attributable to owners of the parent for the six months ended 30 June 2010 and 2009 are as follows:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Profit attributable to owners of the parent *(RMB thousands)*	**407,346**	169,108
Weighted average number of ordinary shares in issue *(thousands)*	**2,893,150**	2,593,750
Earnings per share *(RMB cents per share)*	**14.1**	6.5

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2010 in respect of the share options outstanding during the period as there was no dilutive effect on the basic earnings per share amounts presented with the exercise prices of the share options greater than the average market price of the Company's shares. Diluted earnings per share amount for the period ended 30 June 2009 is the same as the basic earnings per share as no diluting events existed during the six months ended 30 June 2009.

9. DIVIDENDS

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

10. TRADE RECEIVABLES

Trade receivables consist of receivables from sale of properties and rental under operating leases. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements. An ageing analysis of the trade receivables as at the end of the reporting period is as follows:

	As at 30 June 2010	**As at** 31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**50,640**	114,644
4 to 6 months	**14,761**	12,830
7 to 12 months	**2,820**	12,162
Over 1 year	**5,018**	7,777
	73,239	147,413

11. TRADE PAYABLES

All trade payables were fallen due within one year or repayable on demand as of 30 June 2010 and 31 December 2009.

12. SHARE CAPITAL

	Number of ordinary shares	**Nominal value of ordinary shares**	**Equivalent nominal value of ordinary shares**
	'000	***HK$'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
Authorised			
At 31 December 2009 and 30 June 2010	8,000,000	800,000	786,113
Issued and fully paid			
At 30 June 2010	2,893,150	289,315	280,485
At 31 December 2009	2,893,750	289,375	280,538

On 30 December 2009, the Company repurchased an aggregate of 600,000 ordinary shares at approximately HK$3,454,000 (equivalent to approximately RMB3,041,000) on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the aggregate consideration paid (including transaction costs) was approximately HK$3,458,000 (equivalent to approximately RMB3,045,000). On 8 January 2010, the shares were cancelled.

A summary of the transactions in the Company's issued share capital is as follows:

	Number of ordinary shares *'000* (Unaudited)	Nominal value of ordinary shares *HK$'000* (Unaudited)	Equivalent nominal value of ordinary shares *RMB'000* (Unaudited)	Shares premium *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
At 1 January 2010 and 31 December 2009	2,893,750	289,375	280,538	6,618,712	6,899,250
Cancellation of shares	(600)	(60)	(53)	(2,988)	(3,041)
At 30 June 2010	2,893,150	289,315	280,485	6,615,724	6,896,209

13. EVENTS AFTER THE REPORTING PERIOD

(i) Issuance of senior notes

On 11 August 2010, the Company and its certain subsidiaries providing guarantees to the Company entered into a purchase agreement with Morgan Stanley & Co. International plc and Standard Chartered Bank in connection with the issuance of USD250,000,000 of 12.50% senior notes of the Company due 2017 (the "Notes"). The Notes have been listed and quoted on the Singapore Exchange Securities Trading Limited on 19 August 2010 and net proceeds of approximately USD245,243,000 were received by the Company. Details of the information were contained in the Company's announcements dated 3 August 2010, 12 August 2010 and 19 August 2010.

(ii) Investment in a joint venture in Tianjin, PRC

On 25 August 2010, the Company, through one of its indirect wholly-owned subsidiary, entered into an agreement with respective indirect wholly-owned subsidiaries of Agile Property Holdings Limited, Guangzhou R&F Properties Co., Ltd. and Shimao Property Holdings Limited in regards of future cooperation in the development of a property situated in Tianjin, PRC by the means of a joint venture. Details of the information were contained in the Company's announcement dated 25 August 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

The PRC property market was under a period of regulatory adjustment during the first half of 2010. In January 2010, the PRC government issued the "Notice of the State Council Office on Facilitating the Stable and Health Development of the Real Estate Market," which provided that the amount of down payment for the purchase of a second housing property would be raised to 40.0%, in a bid to curb housing demand driven by speculative purposes. This was followed by new policies for the property market announced in March and April in 2010, which authorised banks to suspend loans for the purchase of a third housing property and for the purchase of any housing property by non-local residents who cannot provide evidence of payments of local taxes or social insurance premium for over 1 year, while a higher ratio of land premium payment was imposed coupled with other measures against stocking of land to forcefully curb excessive growth in housing prices in certain regions. The implementation of these policies dealt an immediate blow to the domestic property market, as property sales volume plummeted in various cities across the nation.

The management is of the view that the regulatory adjustment of the market is inevitable for healthier and more desirable development of the industry, while also providing market players an opportunity for self-correction. Throughout the process, the Group has been keeping close monitor of the situation and making swift response to address any changes in the market. Against unfavourable market conditions, the Group doubled its efforts in cost control and adjusted the focal points in business development, while observing prudent financial discipline, improving the efficiency of our IT-based management system and enhancing staff quality. Through these initiatives in building internal strengths, we aim to improve our ability to cope with challenges in the market by raising our internal operational standards and our ability to resolve market risks.

Business Review

Subsequent to its full-scale diversification to regional markets outside Guangzhou and successful market launches in 2009, the first six months of 2010 has been an important period of consolidation for the Group, during which it continued to explore these outside Guangzhou regional markets in further depths in a bid to reinforce its market share. Despite the rapid turnaround in market conditions since mid-April in 2010, the Group was able to achieve satisfactory pre-sale results for the reporting period, thanks to its initiative to speed up market launch since the start of the year which saw the completion of the sales of some of its new projects and products well before the regulatory measures loomed in. The total amount and GFA of pre-sale for the period under review were approximately RMB6.5 billion and 550,000 sq.m., respectively, representing growth 116.7% and 36.1%, respectively, as compared to the corresponding period in 2009.

As at 30 June 2010, the Group had 17 projects under development. The Summit (譽山國際) (also known as "Zengcheng Summit"), a large-scale integrated project located in Zengcheng, Guangzhou, launched Phase 1 villas in late March 2010, which gained active market responses with its well-planned complementary facilities and design. The Group also launched new phases of other existing projects during the period under review, such as special units with indoor swimming pools in high-end residential project Chengdu Cosmos (譽峰), the low-density, standalone office towers with naming rights in International Creative Valley (科匯金谷) in Guangzhou, high-rise residential units in The Sapphire (峰匯國際) in Suzhou and the low-density houses in Fragrant Seasons (also known as "Sound of the Soul") in Beijing, etc. Extensive market recognition of these new phases was well underpinned by consistent strong sales.

Leveraging our initial success in developing other regional markets in 2009 followed by persistent and dedicated efforts in market development and with the benefit of internal and external factors described above, we were capturing increasing market shares in Suzhou, Chengdu and Beijing on the solid reputation of our projects among the local communities in these cities, effectively boosting our brand influence and market shares outside Guangzhou regions. The Group will continue to enhance comprehensive business development outside Guangzhou regions and gradually extend its market coverage in the cities we have entered into and surrounding areas.

Investment Properties

As at 30 June 2010, the occupancy rate of International Finance Place ("IFP"), one of the Group's major investment properties, stood at above 95.0%, as IFP remained the Grade A office building that commanded the highest rental rate in Guangzhou's office building market on the back of its building quality, excellent property management service and high-end tenancy.

Hotel properties and serviced apartments

Operations have been smooth at Four Points by Sheraton since its opening in September 2009, with business revenue steadily on the rise. Meanwhile, the Group's Guangzhou W Hotel — the first W Hotel and W Apartments in China — and Sheraton Huadu Resort are currently under construction and expected to commence operation in the near future.

Market Outlook

While the property market was subject to temporary regulatory adjustment during the interim period of 2010, there remained a realistic demand for primary as well as replacement housing from end-users, as the Chinese people continued to enjoy rising spending powers amid the nation's stable and robust economic growth. Nevertheless, it does take time for a rational market correction to run its course and for consumers' confidence to pick up thereafter.

As such, the Group will continue to monitor future market trends in a pro-active and rational manner, with plans to launch in the second half of 2010 Suzhou Apex (蘇州領峰), a brand new project in Wuzhong District, Suzhou, as well as new phases of existing projects such as high-rise apartments of The Summit (譽山國際) in Guangzhou, Phase II villas of Fragrant Seasons in Beijing and serviced apartments of International Creative Valley (科匯金谷), etc. The Group will continue to maximize the value of its land bank to construct quality residences, striving for stable growth in future results in pursuit of its corporate mission: "Building Homes with Heart and Creating the Future with Aspirations."

Financial Review

Revenue

Revenue of the Group comprises primarily the (i) gross proceeds, net of business tax, from the sale of properties, (ii) gross recurring revenue received and receivable from investment properties, (iii) gross revenue from hotel room rentals, food and beverage sales and other ancillary services when the services are rendered and (iv) property management fee income. The revenue is primarily generated from its four business segments: property development, property investment, hotel operation and provision of property management services.

The revenue amounted to approximately RMB2,342.1 million in the first half of 2010, representing a significant increase of 160.1% from approximately RMB900.6 million for the corresponding period in 2009, primarily due to the increase of total gross floor area (the "GFA") delivered in sales of properties in the first half of 2010.

The revenue generated from property development, property investment, hotel operation and provision of property management services were approximately RMB2,229.7 million, RMB57.4 million, RMB22.1 million and RMB32.9 million, respectively, during the six months ended 30 June 2010.

Property development

Revenue generated from property development increased by 167.9% to approximately RMB2,229.7 million for the six months ended 30 June 2010 from approximately RMB832.4 million for the corresponding period in 2009, primarily attributable to an 123.5% increase in the total GFA delivered to 244,969 sq.m. in the first half of 2010 from 109,594 sq.m. for the corresponding period in 2009. The increase in the total GFA delivered was primarily due to more projects were delivered in the first half of 2010, as well as the recovery of market environment after the rapid turndown driven by the global economic crisis in the fourth quarter of 2008.

The increase in revenue was also attributable to the increase in the recognised average selling price of our properties increased. The recognised average selling price of property increased to RMB9,102 per sq.m. in the first half of 2010 from RMB7,595 per sq.m. for the corresponding period in 2009 reflecting the recovery of market environment as discussed.

Property investment

Revenue generated from property investment increased by 28.4% to approximately RMB57.4 million for the six months ended 30 June 2010 from approximately RMB44.7 million for the corresponding period in 2009, primarily attributable to an increase in total GFA of our rental area leased in IFP during the period under review.

Hotel operation

In September 2009, our Four Points by Sheraton Guangzhou, Dongpu commenced its soft-launch. The Group reported hotel operation income of approximately RMB22.1 million for the six month ended 30 June 2010 (six months ended 30 June 2009: Nil).

Provision of property management services

Revenue generated from the provision of property management services increased by 40.0% to approximately RMB32.9 million for the six months ended 30 June 2010 from approximately RMB23.5 million for the corresponding period in 2009, primarily attributable to an increase in the number of properties under management.

Cost of Sales

Cost of sales of the Group primarily represents the costs we incur directly for our property development activities. The principal component of cost of sales is cost of properties sold, which includes the direct cost of construction, costs of obtaining land use rights and capitalised borrowing costs on related borrowed funds during the construction period.

Cost of sales increased by 166.5% to approximately RMB1,348.6 million for the six months ended 30 June 2010 from approximately RMB506.0 million for the corresponding period in 2009, primarily due to an overall increase in cost of properties sold following the increase in GFA delivered.

Land cost per sq.m. increased to RMB1,779 for the six months ended 30 June 2010 from RMB862 for the corresponding period in 2009, principally due to the higher proportion in the delivery of new projects with the land use right obtained in 2007, of which the land costs were relatively higher, in the first six months of 2010.

Construction cost per sq.m. remained constant in both periods.

Gross Profit

Gross profit increased by 151.8% to approximately RMB993.5 million for the six months ended 30 June 2010 from approximately RMB394.5 million for the corresponding period in 2009. The increase of gross profit was principally due to the increase in the revenue in the first half of 2010. As discussed above, during the first six months of 2010, although the Group reported increment in the recognised average selling price of property, such effect was offset by the increase in land cost per sq.m.. The Group maintained a relatively stable gross profit margin of 42.4% for the six months ended 30 June 2010 as compared with 43.8% for the corresponding period in 2009.

Other Income and Gains

Other income and gains increased by 2.8% to approximately RMB28.9 million for the six months ended 30 June 2010 from approximately RMB28.1 million for the corresponding period in 2009, mainly comprising interest income of approximately RMB14.1 million and net exchange gains of approximately RMB5.2 million.

Selling and Marketing Costs

Selling and marketing costs of the Group increased by 73.2% to approximately RMB101.5 million for the six months ended 30 June 2010 from approximately RMB58.6 million for the corresponding period in 2009, which was primarily due to an increase of 60.3% in advertising expenses to approximately RMB67.5 million in the first half of 2010 from approximately RMB42.1 million for the corresponding period in 2009, which was largely attributable to increased advertising for our new projects, such as The Emerald, Chengdu Cosmos and The Vision of the World in Chengdu, The Up Blue Town and The Sapphire in Suzhou, Fragrant Seasons in Beijing, The International Creative Valley and The Summit in Guangzhou.

Administrative Expenses

Administrative expenses of the Group increased by 50.2% to approximately RMB170.6 million for the six months ended 30 June 2010 from approximately RMB113.6 million for the corresponding period in 2009, primarily attributable to an increased headcount to catch up with the rapid development of the Group in order to achieve its long term goal. The Group believes that people are key elements for future growth and grasp the opportunities ahead. The Group also provided extensive training, built an incentive scheme as well as a teamwork-oriented corporate culture with high sense of belonging to pave the way for long term development. The opening of our Four Points by Sheraton Guangzhou, Dongpu in September 2009 and the increase of other tax and surcharges on sales of properties also contributed to the increment for the six months ended 30 June 2010.

Other Operating Expenses, Net

Other operating expenses of the Group remained constant in the first half of 2010 as compared with the corresponding period in 2009. The principal factor behind other operating expenses related to operating costs of facilities at our residential development such as clubhouses and dining facilities.

Fair Value Gains on Investment Properties, Net

As there was no new investment property project and the market value of the Group's existing investment property remained stable, therefore there was no significant fair value gains on investment properties for the Group during the first half of 2010. The Group reported net fair value gains on investment properties of approximately RMB2.3 million for the six months ended 30 June 2010 (six months ended 30 June 2009: approximately RMB32,000).

Finance Costs

Finance costs of the Group being approximately RMB5.0 million for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil), related to the borrowing costs on corporate loans. Since such loans were not earmarked for project development, such borrowing costs have not been capitalised.

Income tax expenses

Income tax expenses increased by 215.7% to approximately RMB352.9 million for the six months ended 30 June 2010 from approximately RMB111.8 million for the corresponding period in 2009, primarily due to an increase in profit attributable to the owners of the parent and provision for LAT as a result of an increase in properties sold in the first six months of 2010.

Profit Attributable to the Owners of the Parent

Profit attributable to the owners of the parent of the Group for the six months ended 30 June 2010 increased by 140.9% to approximately RMB407.3 million from approximately RMB169.1 million for the corresponding period in 2009. Net profit margin decreased to 17.4% for the six months ended 30 June 2010 from 18.7% for the corresponding period in 2009, as a result of the cumulative effect of the foregoing factors.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash Position

As at 30 June 2010, the carrying amount of the Group's cash and bank balances was approximately RMB5,858.5 million (31 December 2009: approximately RMB3,610.6 million), representing an increase of 62.3% as compared to that as at 31 December 2009.

Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sales proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 30 June 2010, the carrying amount of the restricted cash was approximately RMB1,034.0 million (31 December 2009: approximately RMB1,069.9 million).

Borrowings and Charges on Group's Assets

The Group had aggregate bank loans as at 30 June 2010 of approximately RMB10,479.0 million, of which approximately RMB2,696.1 million are repayable within 1 year, approximately RMB7,020.0 million are repayable between 2 and 5 years and approximately RMB762.9 million are repayable after 5 years.

As at 30 June 2010, certain bank loans of the Group were secured by property, plant and equipment, land use rights, investment properties, properties under development, completed properties held for sale and time deposits of the Group with total carrying values of approximately RMB8,721.6 million.

The carrying amounts of all the Group's bank loans are denominated in Renminbi except for certain loan balances with an aggregate amount of approximately HK$1,101.6 million as at 30 June 2010 which were denominated in Hong Kong dollars. All of the Group's bank loans were charged at floating interest rates as at 30 June 2010.

Gearing Ratio

The gearing ratio is measured by the net borrowings (total bank loans net of cash and cash equivalents and restricted cash) over the total equity. As at 30 June 2010, the gearing ratio was 43.3% (31 December 2009: 48.4%). The improvement in gearing ratio during the six months ended 30 June 2010 was primarily attributable to the increase in pre-sale proceeds for the six months ended 30 June 2010.

Risk of Exchange Rate Fluctuation

The Group mainly operates in the PRC, so most of its revenue and expenses are measured in Renminbi. The value of Renminbi against the U.S. dollar and currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the People's Bank of China.

In the first half of 2010, the exchange rates of Renminbi to the U.S. dollar and the Hong Kong dollar maintained a relatively stable level and the Board expects that any fluctuation of Renminbi's exchange rate will not have material adverse effect on the operations of the Group.

CONTINGENT LIABILITIES

(i) As at 30 June 2010, the Group had contingent liabilities relating to guarantees in respect of mortgage facilities for certain purchasers amounting to approximately RMB5,669.8 million (31 December 2009: approximately RMB4,067.1 million). This represented the guarantees in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principal together with accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled to take over the legal title and possession of related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

    The fair value of the guarantees is not significant and the Board considers that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made as at 30 June 2010 and 31 December 2009 in the financial statements for the guarantees.

(ii) As at 30 June 2010, the Group had provided a guarantee in respect of a bank loan of RMB700.0 million (31 December 2009: RMB700.0 million) for the ex-owner of our Zengcheng project in Guangzhou, PRC.

(iii) As at 30 June 2010, the Group had provided a guarantee in respect of a bank loan to the extent of approximately RMB200.0 million (31 December 2009: Nil) for a jointly-controlled entity.

EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2010, the Group employed a total of approximately 2,600 employees. The total staff costs incurred were approximately RMB109.2 million during the six months ended 30 June 2010. The remuneration of employees was determined based on their performance, skill, experience and prevailing industry practices. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment to commensurate with the pay level in the industry. In addition to basic salary, the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for PRC employees), employees may be offered with discretionary bonus and cash awards based on individual performance.

During the six months ended 30 June 2010, the Company granted 8,000,000 share options to certain employees of the Group at an exercise price of HK$5.67 per share on 30 March 2010. As at 30 June 2010, 16,457,000 options had been granted. None of the share options were exercised by the grantees or cancelled by the Company as at the date of approved of this unaudited condensed consolidated interim financial information.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

AUDIT COMMITTEE

The audit committee of the Company comprises three members who are independent non-executive directors, namely Mr. Tam Chun Fai (the chairman), Mr. Lee Ka Sze, Carmelo and Mr. Dai Feng. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period under review.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the websites of the Company (www.kwgproperty.com) and the Stock Exchange (www.hkex.com.hk). An interim report for the six months ended 30 June 2010 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders of the Company and available on the same websites in due course.

By Order of the Board
KWG Property Holding Limited
Kong Jian Min
Chairman

Hong Kong, 31 August 2010

As at the date of this announcement, the executive directors of the Company are Mr. Kong Jian Min, Mr. Kong Jian Tao, Mr. Kong Jian Nan, Mr. Li Jian Ming, Mr. Tsui Kam Tim, Mr. He Wei Zhi and Mr. Yu Yao Sheng; the independent non-executive directors of the Company are Mr. Lee Ka Sze, Carmelo, Mr. Dai Feng and Mr. Tam Chun Fai.