

*This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No securities may be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements. No public offer of securities is to be made by KWG Property Holding Limited in the United States.*

*This announcement contains projections and forward-looking statements regarding the Group's objectives and expectations with respect to property development plans, and its opportunities and business prospects. Such forward-looking statements are not guarantees of future performance of the Group and are subject to factors that could cause actual results and company plans and objectives to differ materially from those expressed in the forward-looking statements. These factors include, but not limited to, adverse changes in the Chinese economy and property market; fluctuations in the availability and pricing of residential and commercial properties; performance of construction and other contractors; and competition and competitive pricing pressures for the Group's products. The Group undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.*



合 景 泰 富

## **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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008**

#### **HIGHLIGHTS**

- Revenue for the six months ended 30 June 2008 amounted to RMB720.7 million, an increase of 588.3% compared with the corresponding period in 2007.
- Profit attributable to equity holders of the parent amounted to RMB221.7 million, representing a growth of 94.3% compared with the corresponding period in 2007.
- Gross profit margin for the period was 60.3%, an increase from 57.8% in the corresponding period in 2007.
- Net profit margin for the period was 31.2%, a decrease from 109.0% in the corresponding period in 2007.
- Earnings per share for the period amounted to RMB8.6 cents, an increase from RMB6.1 cents in the corresponding period in 2007.

## INTERIM RESULTS

The board of directors (the “Board”) of KWG Property Holding Limited (“KWG”) or (the “Company”) is pleased to announce the unaudited condensed consolidated income statement of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2008, together with the comparative figures for the corresponding period in 2007, the unaudited condensed consolidated balance sheet of the Group as at 30 June 2008 together with audited comparative figures as at 31 December 2007, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

|  | <i>Notes</i> | Six months ended 30 June              |                                |
|--|--------------|---------------------------------------|--------------------------------|
|  |              | 2008<br><i>RMB'000</i><br>(Unaudited) | 2007<br>RMB'000<br>(Unaudited) |
| REVENUE                                      | 3            | 720,696                               | 104,651                        |
| Cost of sales                                |              | (285,834)                             | (44,154)                       |
| Gross profit                                 |              | 434,862                               | 60,497                         |
| Other income and gains                       | 3            | 98,935                                | 97,608                         |
| Selling and marketing costs                  |              | (32,445)                              | (28,643)                       |
| Administrative expenses                      |              | (91,220)                              | (59,566)                       |
| Other operating expenses, net                |              | (559)                                 | (529)                          |
| Fair value gains on investment properties    |              | 22,410                                | 81,177                         |
| Finance costs                                | 4            | –                                     | (14,881)                       |
| Share of loss of a jointly-controlled entity |              | (1,452)                               | (9)                            |
| PROFIT BEFORE TAX                            | 5            | 430,531                               | 135,654                        |
| Tax  | 6            | (205,910)                             | (21,581)                       |
| PROFIT FOR THE PERIOD                        |              | 224,621                               | 114,073                        |
| Attributable to:                             |              |                                       |                                |
| Equity holders of the parent                 |              | 221,744                               | 114,073                        |
| Minority interests                           |              | 2,877                                 | –                              |
|  |              | 224,621                               | 114,073                        |
| Earnings per share – Basic                   | 7            | RMB8.6 cents                          | RMB6.1 cents                   |
| Dividends                                    | 8            | –                                     | –                              |

## CONDENSED CONSOLIDATED BALANCE SHEET

|  |       | As at   |   |
|--|-------|---|---|
|  | Notes | 30 June 2008<br><i>RMB'000</i><br>(Unaudited) | 31 December 2007<br><i>RMB'000</i><br>(Audited) |
| <b>NON-CURRENT ASSETS</b>                    |       |   |   |
| Property, plant and equipment                |       | 341,860                                       | 227,685   |
| Investment properties                        |       | 3,628,426                                     | 3,650,919                                       |
| Land use rights                              |       | 888,640                                       | 875,254   |
| Interest in a jointly-controlled entity      |       | 2,453   | 3,905   |
| Deferred tax assets                          |       | 147,419                                       | 111,371   |
| Long term prepayment                         |       | 1,095,478                                     | 933,359   |
|  |       | <hr/>   | <hr/>   |
| Total non-current assets                     |       | <b>6,104,276</b>                              | 5,802,493                                       |
|  |       | <hr style="border-top: 1px dashed black;"/>   | <hr style="border-top: 1px dashed black;"/>     |
| <b>CURRENT ASSETS</b>                        |       |   |   |
| Properties under development                 |       | 10,578,270                                    | 7,745,585                                       |
| Completed properties held for sale           |       | 1,092,600                                     | 1,189,629                                       |
| Trade receivables                            | 10    | 31,972  | 34,620  |
| Prepayments, deposits and other receivables  |       | 1,049,523                                     | 735,413   |
| Due from a jointly-controlled entity         |       | 60,484  | 29,001  |
| Taxes recoverable                            |       | 12,919  | 1,800   |
| Restricted cash                              |       | 174,913                                       | 147,353   |
| Cash and cash equivalents                    |       | 1,274,192                                     | 3,288,639                                       |
|  |       | <hr/>   | <hr/>   |
| Total current assets                         |       | <b>14,274,873</b>                             | 13,172,040                                      |
|  |       | <hr style="border-top: 1px dashed black;"/>   | <hr style="border-top: 1px dashed black;"/>     |
| <b>CURRENT LIABILITIES</b>                   |       |   |   |
| Trade payables                               | 11    | 2,607,891                                     | 3,437,982                                       |
| Other payables and accruals                  |       | 2,317,887                                     | 1,755,906                                       |
| Interest-bearing bank borrowings             |       | 339,311                                       | 275,068   |
| Taxes payable                                |       | 1,096,194                                     | 1,149,171                                       |
|  |       | <hr/>   | <hr/>   |
| Total current liabilities                    |       | <b>6,361,283</b>                              | 6,618,127                                       |
|  |       | <hr style="border-top: 1px dashed black;"/>   | <hr style="border-top: 1px dashed black;"/>     |
| <b>NET CURRENT ASSETS</b>                    |       | <b>7,913,590</b>                              | 6,553,913                                       |
|  |       | <hr style="border-top: 3px double black;"/>   | <hr style="border-top: 3px double black;"/>     |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | <b>14,017,866</b>                             | 12,356,406                                      |
|  |       | <hr style="border-top: 3px double black;"/>   | <hr style="border-top: 3px double black;"/>     |

## CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

|   |             | As at   |  |
|---|-------------|---|--|
|   | <i>Note</i> | <b>30 June 2008</b><br><i>RMB'000</i><br><b>(Unaudited)</b> | 31 December 2007<br><i>RMB'000</i><br><b>(Audited)</b> |
| <b>NON-CURRENT LIABILITIES</b>                      |             |   |  |
| Interest-bearing bank borrowings                    |             | 4,310,699   | 2,445,404  |
| Deferred tax liabilities                            |             | 632,817   | 638,656  |
|   |             | <hr/>   | <hr/>  |
| Total non-current liabilities                       |             | 4,943,516   | 3,084,060  |
|   |             | <hr style="border-top: 1px dashed black;"/>                 | <hr style="border-top: 1px dashed black;"/>            |
| Net assets  |             | <b>9,074,350</b>  | 9,272,346  |
|   |             | <hr style="border-top: 3px double black;"/>                 | <hr style="border-top: 3px double black;"/>            |
| <b>EQUITY</b>                                       |             |   |  |
| Equity attributable to equity holders of the parent |             |   |  |
| Issued capital                                      | 12          | 254,093   | 254,093  |
| Reserves  |             | 8,092,060   | 7,890,527  |
| Proposed final dividend                             |             | –   | 389,063  |
|   |             | <hr/>   | <hr/>  |
| Minority interests                                  |             | 8,346,153   | 8,533,683  |
|   |             | 728,197   | 738,663  |
|   |             | <hr/>   | <hr/>  |
| Total equity  |             | <b>9,074,350</b>  | 9,272,346  |
|   |             | <hr style="border-top: 3px double black;"/>                 | <hr style="border-top: 3px double black;"/>            |

*Notes:*

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 28 July 2006 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands.

The address of the Company's registered office is Cricket Square, Hutchins Drive, Grand Cayman KY1-1111, Cayman Islands. During the period, the Company is engaged in investment holding and the subsidiaries of the Company were principally engaged in the property development, property investment and property management in The People's Republic of China (the "PRC").

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 July 2007 (the "Listing").

The unaudited interim financial information was reviewed by audit committee of the Company and approved by the Board for issue on 29 August 2008.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1 Basis of preparation

The unaudited 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 interim financial information should be read in conjunction with the audited financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

### 2.2 Accounting policies

The unaudited interim financial information 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 2007. The following interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group:

|                     |  |
|---------------------|--|
| HK (IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions  |
| HK (IFRIC) – Int 12 | Service Concession Arrangements  |
| HK (IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

#### **Standards, amendments to standards and interpretation that are not yet effective and have not been adopted by the Group**

The Group has not early adopted the following new/revised standards, amendments to standards and interpretation that have been issued but are not yet effective for the financial year beginning 1 January 2008:

|                       |   |
|-----------------------|---|
| Amendments to HKFRS 2 | Share-based Payment-Vesting Conditions and Cancellations <sup>2</sup> |
| HKFRS 3 (Revised)     | Business Combinations <sup>3</sup>                                    |
| HKFRS 8               | Operating Segments <sup>2</sup>                                       |
| HKAS 1 (Revised)      | Presentation of Financial Statements <sup>2</sup>                     |
| HKAS 23 (Revised)     | Borrowing Costs <sup>2</sup>  |
| Amendments to HKAS 32 | Financial Instruments: Presentation <sup>2</sup>                      |
| HK (IFRIC) – Int 13   | Customer Loyalty Programmes <sup>1</sup>                              |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2008.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009.

The effect of the adoption of HKFRS 3 (Revised) is being assessed by the management while the adoption of the other new/revised standards, amendments to standards and interpretation listed above is not expected to result in material impact in future period.

### 3. REVENUE, OTHER INCOME AND GAINS AND SEGMENT INFORMATION

|   | <b>Six months ended 30 June</b> |                    |
|---|---------------------------------|--------------------|
|   | <b>2008</b>                     | <b>2007</b>        |
|   | <b>RMB'000</b>                  | <b>RMB'000</b>     |
|   | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| Revenue                                   |                                 |                    |
| Sales of properties                       | <b>679,645</b>                  | 99,674             |
| Gross rental income                       | <b>29,570</b>                   | 1,623              |
| Property management fees                  | <b>11,481</b>                   | 3,354              |
|   | <u><b>720,696</b></u>           | <u>104,651</u>     |
| Other income and gains                    |                                 |                    |
| Gain on disposal of investment properties | <b>25,672</b>                   | 8,305              |
| Bank interest income                      | <b>22,615</b>                   | 65,662             |
| Government grant                          | –                               | 7,900              |
| Foreign exchange differences, net         | <b>48,787</b>                   | 12,810             |
| Others                                    | <b>1,861</b>                    | 2,931              |
|   | <u><b>98,935</b></u>            | <u>97,608</u>      |

The Group is principally engaged in property development, property investment and property management. The property development projects undertaken by the Group during the periods are all located in the PRC. Accordingly, no segmental analysis by geographical segment is presented.

The segment results for the six months ended 30 June 2008 are as follows:

|  | <b>Property<br/>development<br/>RMB'000<br/>(Unaudited)</b> | <b>Property<br/>investment<br/>RMB'000<br/>(Unaudited)</b> | <b>Property<br/>management<br/>RMB'000<br/>(Unaudited)</b> | <b>Total<br/>RMB'000<br/>(Unaudited)</b> |
|--|---|--|--|--|
| <b>Segment revenue:</b>                      |   |  |  |  |
| Sales to external customers                  | <u><b>679,645</b></u>                                       | <u><b>29,570</b></u>                                       | <u><b>11,481</b></u>                                       | <u><b>720,696</b></u>                    |
| Segment results                              | <u><b>370,971</b></u>                                       | <u><b>76,803</b></u>                                       | <u><b>2,166</b></u>  | <b>449,940</b>                           |
| Interest income and unallocated income       |   |  |  | <b>73,263</b>                            |
| Unallocated expenses                         |   |  |  | <b>(91,220)</b>                          |
| Share of loss of a jointly-controlled entity | <b>(1,452)</b>  | –  | –  | <u><b>(1,452)</b></u>                    |
| Profit before tax                            |   |  |  | <b>430,531</b>                           |
| Tax  |   |  |  | <b>(205,910)</b>                         |
| Profit for the period                        |   |  |  | <u><b>224,621</b></u>                    |

The segment results for the six months ended 30 June 2007 are as follows:

|  | Property<br>development<br><i>RMB'000</i><br>(Unaudited) | Property<br>investment<br><i>RMB'000</i><br>(Unaudited) | Property<br>management<br><i>RMB'000</i><br>(Unaudited) | Total<br><i>RMB'000</i><br>(Unaudited) |
|--|--|---|---|--|
| <b>Segment revenue:</b>                      |  |   |   |  |
| Sales to external customers                  | 99,674   | 1,623   | 3,354   | 104,651                                |
| Segment results                              | 32,567   | 87,371  | 869   | 120,807                                |
| Interest income and unallocated income       |  |   |   | 89,303                                 |
| Unallocated expenses                         |  |   |   | (59,566)                               |
| Finance costs                                |  |   |   | (14,881)                               |
| Share of loss of a jointly-controlled entity | (9)  | –   | –   | (9)                                    |
| Profit before tax                            |  |   |   | 135,654                                |
| Tax  |  |   |   | (21,581)                               |
| Profit for the period                        |  |   |   | 114,073                                |

#### 4. FINANCE COSTS

|   | <b>Six months ended 30 June</b> |                |
|---|---------------------------------|----------------|
|   | <b>2008</b>                     | 2007           |
|   | <b><i>RMB'000</i></b>           | <i>RMB'000</i> |
|   | <b>(Unaudited)</b>              | (Unaudited)    |
| Interest on bank loans wholly repayable within five years | 138,025                         | 102,822        |
| Interest on amounts due to related companies              | –                               | 245            |
| Total interest  | 138,025                         | 103,067        |
| Less: Interest capitalised                                | (138,025)                       | (88,186)       |
|   | –                               | 14,881         |

#### 5. PROFIT BEFORE TAX

For the six months ended 30 June 2008, the Group's profit before tax is arrived at after charging cost of properties sold of RMB282,410,000 (six months ended 30 June 2007: RMB43,226,000), depreciation of RMB4,036,000 (six months ended 30 June 2007: RMB2,649,000) and amortisation of land use rights of RMB365,000 (six months ended 30 June 2007: RMB54,000).

## 6. TAX

|                                  | Six months ended 30 June |               |
|----------------------------------|--------------------------|---------------|
|                                  | 2008                     | 2007          |
|                                  | RMB'000                  | RMB'000       |
|                                  | (Unaudited)              | (Unaudited)   |
| Current                          |                          |               |
| PRC corporate income tax ("CIT") | 115,153                  | 20,587        |
| Land appreciation tax ("LAT")    | 132,644                  | 20,575        |
| Deferred                         | (41,887)                 | (19,581)      |
|                                  | <hr/>                    | <hr/>         |
| Total tax charge for the period  | <b>205,910</b>           | <b>21,581</b> |
|                                  | <hr/> <hr/>              | <hr/> <hr/>   |

### *Hong Kong profits tax*

No Hong Kong profits tax was provided because the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2008 and 2007.

### *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 2008 and 2007, based on the existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC CIT law passed by the Tenth National People's Congress on 16 March 2007, the new CIT rates for domestic and foreign enterprises were unified at 25% effective on 1 January 2008. As a result, the CIT rate of all the subsidiaries of the Company incorporated in the PRC changed from 33% to 25% with effect from 1 January 2008.

### *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.

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to equity holders of the parent for the six months ended 30 June 2008 and 2007 are as follows:

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2008                     | 2007        |
|   | (Unaudited)              | (Unaudited) |
| Profit attributable to equity holders of the parent (RMB thousands) | 221,744                  | 114,073     |
| Weighted average number of ordinary shares in issue (thousands)     | 2,593,750                | 1,875,000   |
| Earnings per share (RMB cents per share)                            | 8.6                      | 6.1         |

The weighted average of 1,875,000,000 ordinary shares in issue for the six months ended 30 June 2007 is derived after taking into consideration of the capitalisation issue of 1,874,998,000 ordinary shares, which deemed to have been in issue throughout the accounting period presented.



No diluted earnings per share amount for the six months ended 30 June 2008 and 2007 has been disclosed as no diluting events existed during these periods.

## 8. DIVIDENDS

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

## 9. CAPITAL EXPENDITURE

During the six months ended 30 June 2008, the Group acquired property, plant and equipment and land use rights of RMB118,712,000 and nil respectively (six months ended 30 June 2007: RMB168,807,000 and RMB61,959,000 respectively).

## 10. TRADE RECEIVABLES

Trade receivables mainly arise from sale of properties. Consideration in respect of properties sold are payable by the purchasers in accordance with the terms of the related sale and purchase agreements and no credit terms are granted for property development business. The ageing analysis of trade receivables is as follows:

|                 | <b>30 June</b>     | <b>As at</b>     |
|-----------------|--------------------|------------------|
|                 | <b>2008</b>        | 31 December      |
|                 | <b>RMB'000</b>     | 2007             |
|                 | <b>(Unaudited)</b> | <b>RMB'000</b>   |
|                 |                    | <b>(Audited)</b> |
| Within 3 months | 22,413             | 30,103           |
| 4 to 6 months   | 8,710              | 4,127            |
| 7 to 12 months  | 849                | 390              |
|                 | <u>31,972</u>      | <u>34,620</u>    |
|                 | <b>31,972</b>      | <b>34,620</b>    |

## 11. TRADE PAYABLES

All trade payables were fallen due within one year or repayable on demand as of 30 June 2008 and 31 December 2007.

## 12. SHARE CAPITAL

|   | <b>Number of<br/>ordinary shares</b><br><br>(Unaudited) | <b>Nominal<br/>value of<br/>ordinary<br/>shares</b><br><i>HK\$'000</i><br>(Unaudited) | <b>Equivalent<br/>nominal<br/>value of<br/>ordinary<br/>shares</b><br><i>RMB'000</i><br>(Unaudited) |
|---|---|---|---|
| <b>Authorised</b>                                     |   |   |   |
| Ordinary share of HK\$0.10 each upon<br>incorporation | 3,800,000   | 380   | 390   |
| Increase in authorised share capital                  | 7,996,200,000   | 799,620   | 785,723   |
|   | <u>8,000,000,000</u>                                    | <u>800,000</u>  | <u>786,113</u>  |
| <b>Issued and fully paid</b>                          |   |   |   |
| At 1 January 2007                                     | 2,000   | –   | –   |
| Capitalisation issue                                  | 1,874,998,000   | 187,500   | 184,241   |
|   | <u>1,875,000,000</u>                                    | <u>187,500</u>  | <u>184,241</u>  |
| At 30 June 2007                                       | 1,875,000,000   | 187,500   | 184,241   |
| At 30 June 2007 and 1 July 2007                       | 1,875,000,000   | 187,500   | 184,241   |
| Issue of shares in connection with the Listing        | 718,750,000   | 71,875  | 69,852  |
|   | <u>2,593,750,000</u>                                    | <u>259,375</u>  | <u>254,093</u>  |
| At 31 December 2007 and 30 June 2008                  | <u>2,593,750,000</u>                                    | <u>259,375</u>  | <u>254,093</u>  |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Environment

After years of speedy economic development, under the pressure of inflation, the Central Government introduced a series of macroeconomic measures in the second half of 2007 which imposed control on real estate market by starting from each relevant scopes of real estate industry to prevent overheated economic growth. 2008 has been the first year that the effects of the State's macroeconomic measures showed:

- Financial policy's transition is most evident in individual mortgages loans aspect. Notwithstanding the individual mortgages loan has always been the best loan type by the banks, the People's Bank of China and China Banking Regulatory Commission promulgated the Notice on Strengthening the Administration of Commercial Real Estate Credit Loans in 2007, stating that "the ratio of initial installment of payment and interest rate shall be raised as the number of homes increases". It restrained speculations and raised the buying threshold for the second time buyer as well, affecting the enthusiasm of real estate investment.
- Major Task of Administration of the Ministry of Land and Resources for 2008 announced by the Ministry of Land and Resources in April 2008 clearly indicates that the Central Government will continue in stringent land control and supervision in 2008.
- The Central Government continues to tighten money supply. After increasing interest rates in seven successive times, on 7 June 2008, the Central Bank announced raising of the deposit reserves rates for the fifth time which made the deposit reserves rates reached the highest of 17.5% in 22 years. Scopes of utilising foreign capital and bank credit of the industry are under stringent control. There is also uncertainty in presale capital regulating policies. These factors resulted in further tightening of the industry's capital chain and higher requirements for the expansion of capital power, raising the efficiency of capital used and control of financial risk of enterprises.
- Consumer Price Index has remained obstinately high. Under various factors, development costs of real estate projects has continued to grow resulting higher requirements for enterprises' cost control.

Meanwhile, the PRC experienced various unfavorable effects such as crash in the stock market in the first half of 2008, earthquake in Wenchuan, Sichuan, restrictions on export, appreciation in Renminbi (“RMB”) and inflation which intensified the hesitant atmosphere. In the first half of 2008, the selling areas and sales revenue of the PRC’s real estate market had decreased concurrently for the first time since 1998.

## **Business Review**

The Group’s business was proceeding stably although the PRC’s real estate market was under great influence of the State’s macroeconomic control policy in the first half of the year. The Group had 13 projects under various stages of construction in the first half of the year. There were 9 projects under sale of which 4 new projects were launched to the market in May and June. They included Yucui Garden in Guangzhou city center, Waterfront Mansion in Conghua, Sky Ville Phase II (晶藍灣畔) in Huadu District as well as Suzhou City Island which sales conditions were in line with the Company’s expectations.

In the first half of 2008, the sales revenue of the Group amounted to approximately RMB720.7 million, with 5 projects completed and delivered and with approximately 61,000 square metre of GFA.

### *Commercial Properties*

The Group develops office buildings, hotels, retail shop units and carpark spaces for leasing and/or for capital appreciation. As at June 2008, the occupancy rate of one of the Group’s major investment properties, International Finance Place (“IFP”), had reached 85%. It comprises office properties with a total leasable GFA of approximately 91,000 square metre and became a Grade A+ office building with the highest rent in Guangzhou area.

### *Hotel Properties and Serviced Apartments*

As at 30 June 2008, W Guangzhou Hotel and Serviced Apartments, Sheraton Resort Hotel, and Four Points by Sheraton Hotel, of which entire interests are owned by the Group, were under smooth constructions. The Group has entered into three operating agreements with relevant subsidiaries of Starwood Hotels and Resorts Worldwide, Inc (“Starwood Group”) to operate the hotels and associated serviced apartments for 10 to 15 years.

W Guangzhou Hotel and Serviced Apartments are expected to have 320 hotel rooms and 150 apartments. It is expected that the hotel will commence into operations at the end of 2009. Sheraton Resort Hotel is expected to have 97 villa-style hotel rooms. At the end of June 2008, the main body was completed. The Group expects that the hotel will commence operations in May 2009. Four Points by Sheraton Hotel is expected to have 310 hotel rooms. It is under fitting out works. The Group expects that the hotel will commence operations in March 2009.

In addition, other 5 hotels of the Group are under different stages of design and planning. They are located in Guangzhou, Suzhou, Chengdu and Hainan respectively. The Westin Hotel which locates in Suzhou had entered a management contract with Starwood Group.

## **Market Prospects**

Although the macroeconomic control policy regulates and stabilises the market and at the same time brings certain negative effects to the market in the short run, there is no material change to the fundamental elements of the residential property market, and the strong demand in real estate are still increasing under rapid urbanisation in the PRC, while the development of residential property has never stop marching to a mature stage. Housing market will still be one of the most potential industry in the PRC with the largest development potential and space in the coming 10 years.

## **Business Prospects**

The Group insists in developing innovative high-quality properties as the long-term developing strategy in order to maintain the competitiveness. We believe that, as the consumers start to regain their confidence and rationality gradually in the second half of the year, the domestic real estate market will rebound from the bottom. For KWG, the Group has very strong capacity in resisting risks as the Group is focusing on middle- and high-end consumer groups, either the products positioning or products qualities of the development projects are highly recognised and praised by the customers. We are confident in obtaining good results no matter how the market changes.

## **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 and (iii) property management fee income. The revenue is primarily generated from its three business segments: property development, property investment and property management.

The revenue increased by 588.3% to approximately RMB720.7 million in the first half of 2008 from approximately RMB104.7 million for the corresponding period in 2007, primarily attributable to the increases of total GFA sold in 2008, revenue generated from the recurring income of our property investment segment and revenue of our property management segment.

The revenue generated from property development, property investment and property management was RMB679.6 million, RMB29.6 million and RMB11.5 million respectively, during the six months ended 30 June 2008.

### *Property development*

Revenue generated from property development increased by 581.6% to approximately RMB679.6 million for the six months ended 30 June 2008 from approximately RMB99.7 million for the corresponding period in 2007, primarily attributable to an 1137.8% increase in GFA sold to 60,788 square metre in the first half of 2008 from 4,911 square metre for the corresponding period in 2007. The increase in GFA sold was primarily because some of property development projects were under construction during the six months ended 30 June 2007 and 5 of these development projects had been completed and delivered in the second half of 2007 and the first half of 2008.

The increase in revenue was partially offset by decreases in the average selling price of our properties sold. The average selling price of property decreased to RMB11,181 per square metre in the first half of 2008 from RMB20,298 per square metre for the corresponding period in 2007. The decrease in average selling price is because the sales in the first half of 2008 comprised mainly residential units whereas last period's sales comprised mainly our Grade A+ office building, IFP, of which the average selling price was higher than the residential units.

### *Property investment*

Revenue generated from property investment increased by 1750.0% to approximately RMB29.6 million for the six months ended 30 June 2008 from approximately RMB1.6 million for the corresponding period in 2007, primarily attributable to an increase in the number of properties leased in 2008 as a result of the completion and delivery of IFP in July 2007.

### *Property management*

Revenue generated from property management increased by 238.2% to approximately RMB11.5 million for the six months ended 30 June 2008 from approximately RMB3.4 million for the corresponding period in 2007, 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 components 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 period of construction.

Cost of sales increased by 546.6% to approximately RMB285.8 million for the six months ended 30 June 2008 from approximately RMB44.2 million for the corresponding period in 2007, primarily due to an overall increase in cost of properties sold following the increase in number of projects delivered.

Land costs and construction cost per square metre decreased from RMB1,577 and RMB6,601 for the six months ended 30 June 2007 to RMB945 and RMB3,451 respectively for the corresponding period in 2008, principally due to last period's sales comprised mainly our Grade A+ office building, IFP, which was built in Pearl River New Town, a prime location of Guangzhou City, and of which the construction cost was higher than the residential units.

## **Gross profit**

Gross profit increased by 618.8% to approximately RMB434.9 million for the six months ended 30 June 2008 from approximately RMB60.5 million for the corresponding period in 2007. The increase of gross profit was in line with the increase in the revenue in the first half of 2008. The gross profit margin increased to 60.3% for the six months ended 30 June 2008 from 57.8% for the corresponding period in 2007, primarily attributable to the sales of our Cosmos and Sky Ville projects which had higher gross margins. In additions, the increased rental income also gave rise to the increase in gross profit for the period under review.

## **Other income and gains**

Other income and gains increased by 1.3% to approximately RMB98.9 million for the six months ended 30 June 2008 from approximately RMB97.6 million for the corresponding period in 2007, primarily attributable to an increase in the gain on disposal of investment properties by approximately RMB17.4 million and an increase in the net exchange gains by approximately RMB36.0 million. The increase in other income and gains was offset by decreases in interest income by RMB43.1 million and in a Government grant by RMB7.9 million.

Gain on disposal of investment properties increased by 209.6% to approximately RMB25.7 million for the six months ended 30 June 2008 from approximately RMB8.3 million for the corresponding period in 2007, primarily relating to the sale of retail shop units and carpark spaces at our La Bali, Color of United, Yuhui Garden and City of Perfection projects attributable to an 92.7% increase in GFA sold to 4,512 square metre in the first half of 2008 from 2,342 square metre for the corresponding period in 2007. An 15.4% increase in the average selling price of property to RMB15,667 per square metre for the six months ended 30 June 2008 from RMB13,574 per square metre for the corresponding period in 2007 also contributed additional gains on disposal of investment properties.

## **Selling and marketing costs**

Selling and marketing costs of the Group increased by 13.3% to approximately RMB32.4 million for the six months ended 30 June 2008 from approximately RMB28.6 million for the corresponding period in 2007, which is primarily attributable to an increased headcount for selling and marketing personnel on promotion of our new projects, especially on pre-sale of new properties (e.g. Suzhou City Island, Waterfront Mansion in Conghua, Sky Ville Phase II (晶藍灣畔) and Hui Feng).

## **Administrative expenses**

Administrative expenses of the Group increased by 53.0% to approximately RMB91.2 million for the six months ended 30 June 2008 from approximately RMB59.6 million for the corresponding period in 2007, primarily attributable to an increased headcount to catch up with the rapid development of the Group after its listing in July 2007. Four offices were newly established in Suzhou, Chengdu, Beijing and Hainan from July 2007 onwards. In addition, the increase of other tax and surcharges on sales of properties also contributed to the increment in the first half of 2008.

## **Other operating expenses, net**

Other operating expenses of the Group remained constant in both periods. 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**

Fair value gains on investment properties of the Group decrease by 72.4% to approximately RMB22.4 million for the six months ended 30 June 2008 from approximately RMB81.2 million for the corresponding period in 2007, mainly attributable to the disposal of investment properties of 2,616 square metre for retail shop units and 158 carpark spaces, and the stabilisation of properties prices in the Guangzhou City during the period under review.

## **Finance costs**

Finance costs of the Group decrease by 100% to nil for the six months ended 30 June 2008 from approximately RMB14.9 million for the corresponding period in 2007, mainly reflecting the capitalisation of the borrowing costs on the corresponding projects in the first half of 2008.

## **Tax**

Tax increased by 853.2% to approximately RMB205.9 million for the six months ended 30 June 2008 from approximately RMB21.6 million for the corresponding period in 2007, primarily due to an increase in profit attributable to the equity holders of the parent and provisions for LAT as a result of an increase in properties sold in the first half of 2008. The increase in tax was partially offset by the reduction of the CIT rate from 33% in 2007 to the present 25%.

## **Profit attributable to the equity holders of the parent**

Profit attributable to the equity holders of the parent for the six months ended 30 June 2008 of the Group increased by 94.3% to approximately RMB221.7 million from approximately RMB114.1 million for the corresponding period in 2007. Net profit margin decreased to 30.8% for the six months ended 30 June 2008 from 109.0% for the corresponding period in 2007, mainly attributable to interest income of approximately RMB61.5 million earned on the over-subscription monies from the Group's initial public offering in the first half of 2007 and the decrease in fair value gains on investment properties to approximately RMB22.4 million for the first half of 2008 from approximately RMB81.2 million for the corresponding period in 2007. The profit attributable to the equity holders of the parent increased by 796.9% without the effects described above.

## **Liquidity, Financial and Capital Resources**

### **Cash position**

As at 30 June 2008, the carrying amount of the Group's cash and bank deposits was approximately RMB1,449.1 million (31 December 2007: RMB3,436.0 million), representing a decrease of 57.8% as compared to that as at 31 December 2007.



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 2008, the carrying amount of the restricted cash was approximately RMB174.9 million (31 December 2007: RMB147.4 million).

### **Borrowings and charges on the Group's assets**

The Group had an aggregated borrowings as at 30 June 2008 of approximately RMB4,650.0 million, of which approximately RMB339.3 million will be repayable within 1 year, approximately RMB4,130.7 million will be repayable between 2 and 5 years and approximately RMB180.0 million will be repayable over 5 years.

As at 30 June 2008, the Group's bank loans of approximately RMB2,310.0 million were secured by property, plant and equipment, land use rights, investment properties and completed properties held for sale of the Group with total carrying values of approximately RMB3,631.4 million.

The carrying amounts of all the Group's bank loans are denominated in RMB except for a secured loan balance of approximately HK\$830.6 million as at 30 June 2008 which was denominated in Hong Kong dollars. The Group's borrowings of approximately RMB3,919.8 million are charged at fixed interest rates as at 30 June 2008.

### **Gearing ratio**

The gearing ratio is measured by the net borrowings (total borrowings net of cash and cash equivalent and restricted cash) over the total equity. As at 30 June 2008, the gearing ratio was 35.3% (the Group was in a net cash position as at 31 December 2007). The increase in gearing ratio during the six months ended 30 June 2008 was primarily attributable to the continuous raising of new borrowings as a result of the ongoing new properties development.

### **Risk of exchange rate fluctuation**

The Group mainly operates in the PRC, so most of its revenue and expenses are measured in RMB. The value of RMB 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 RMB 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 2008, though the exchange rates of RMB to the U.S. dollar and the Hong Kong dollar kept on increasing, the directors expect that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group.

### **Contingent liabilities**

As at 30 June 2008, the Group had the contingent liabilities relating to guarantees in respect of mortgage facilities for certain purchasers amounting to approximately RMB1,462.6 million (31 December 2007:

approximately RMB1,558.1 million). This represented the guarantees in respect of mortgage facilities granted by certain 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 principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the 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 directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the interim financial information for the guarantees.

### **Employees**

As at 30 June 2008, the Group has employed a total of approximately 1,400 employees. The total staff costs incurred were approximately RMB48.2 million during the six months ended 30 June 2008. Employees were remunerated on the basis of their performance, experience and prevailing industry practices. The Group's remuneration policies and packages were reviewed on a regular basis. As an incentive for the employees, bonuses and cash awards may also be given to employees based on individual performance evaluation.

As at 30 June 2008, no option had been granted under the share option scheme adopted on 11 June 2007.

### **Prospect**

Looking forward, KWG would continue to exert its unique competitive strengths. It would strategically select the locations of its property projects and apply its successful approach within and beyond Guangdong. The Company would uphold its spirit in "Building Quality for Infinite Excellence" to bring optimising returns to the shareholders.

The Board has confidence that the Group's performance will be achieved for the year 2008.

### **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2008 (six months ended 30 June 2007: Nil)

## **AUDIT COMMITTEE**

The audit committee of the Company comprises Mr. Lee Ka Sze, Carmelo, Mr. Dai Feng and Mr. Tam Chun Fai, who are independent non-executive directors. 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 interim financial report for the six months ended 30 June 2008.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions in 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.cn](http://www.kwgproperty.cn)) and the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)). An interim report for the six months ended 30 June 2008 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  
**Kong Jian Min**  
*Chairman*

Hong Kong, 29 August 2008

*As at the date of this announcement, the executive directors are Mr. Kong Jian Min (Chairman), Mr. Kong Jian Tao, Mr. Kong Jian Nan, Mr. Li Jian Ming and Mr. Tsui Kam Tim. The independent non-executive directors are Mr. Dai Feng, Mr. Lee Ka Sze, Carmelo and Mr. Tam Chun Fai.*