

IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shimao China Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for the transmission to the purchaser or transferee.

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SHIMAO CHINA HOLDINGS LIMITED

世茂中國控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

CIRCULAR

Relating to Proposed Business Delineation

Non-Competition Undertaking constituting a Connected Transaction

Independent financial adviser

to the Independent Board Committee and the Independent Shareholders



PLATINUM
Securities

A letter from the Board is set out on pages 5 to 28 of this circular, a letter from the Independent Board Committee is set out on pages 29 of this circular and a letter from Platinum Securities Company Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 53 of this circular.

A notice convening a special general meeting of Shimao China Holdings Limited to be held at 10:00 a.m. on Monday, 14 March 2005 at Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong is set out on pages 60 and 61 of this circular. Whether or not you propose to attend the meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at Ground floor, Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such special general meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the special general meeting or any adjourned meeting should you so wish.

26 February 2005

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“A Share Company”	上海世茂股份有限公司(Shanghai Shimao Co., Ltd.), a company established in the PRC whose shares are listed on the Shanghai Stock Exchange, in which Shimao Enterprises holds a 26.43% interest
“Announcement”	the announcement issued by the Company on 23 February 2005 in connection with the Undertaking
“associate”	has the meaning given to it in the Listing Rules
“Board”	the board of directors of the Company
“BVI”	British Virgin Islands
“Company”	Shimao China Holdings Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the Stock Exchange
“controlling shareholder”	has the meaning given to it in the Listing Rules
“Director(s)”	the director(s), including the independent non-executive directors, of the Company
“Family Trust”	the W. M. Hui Family Trust, a discretionary trust established on 27 August 2001 by Mr. Hui for the benefit of his wife and children
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the committee comprising Professor Lee Chack Fan, Mr. Liu Hing Hung and Mr. Zhu Wenhui and constituted by the Board to advise the Independent Shareholders in respect of the Undertaking
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Hui and his associates
“Latest Practicable Date”	25 February 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Mainland China”	the mainland of the PRC which does not include Hong Kong, Macau and Taiwan
“Mr. Hui”	Mr. Hui Wing Mau, Chairman and non-executive Director
“Mr. Xu”	Mr. Xu Shiyong, Mr. Hui’s nephew
“Overseas Investment”	Overseas Investment Group International Limited, a company incorporated in the BVI, which is the controlling shareholder of the Group
“Platinum”	Platinum Securities Company Limited, a licensed corporation under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Preferential Offer”	the proposed conditional preferential offering to Qualifying Shareholders to subscribe for Reserved Shares
“Private Group”	a number of private companies either wholly-owned by Mr. Hui or owned jointly with his wife and/or Hui Mei Mei, Carol, and Hui Sai Tan, Jason (both of whom are our Directors) as at the Latest Practicable Date which, for the purpose of this definition, does not include our Group
“Proposed Listing”	the proposed listing of SPHL by way of a listing of the SPHL Shares on the main board of the Stock Exchange
“Proposed SPHL Offering”	the proposed (i) new issue to the public in Hong Kong and (ii) conditional placing to institutional, professional and other investors (of which the Preferential Offer is expected to form part) of SPHL Offer Shares
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company as holding a minimum number of Shares to be determined (which shall not be more than 6,000 Shares) at 4:00 p.m. on the Record Date, other than registered holder(s) of Shares, whose addresses on the register of members of the Company at 4:00 p.m. on the Record Date are outside Hong Kong
“Record Date”	the date to be announced by the Company for ascertaining the entitlement(s) of Qualifying Shareholders

DEFINITIONS

“Reorganisation”	the pre-listing reorganisation relating to SPHL’s business
“Reserved Shares”	the SPHL Offer Shares to be offered pursuant to the Preferential Offer
“SGM”	the special general meeting of the Company convened by the notice of SGM attached at the end of this circular to consider and, if thought fit, amongst other things, approve the Undertaking
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shimao Enterprises”	上海世茂企業發展有限公司 (Shanghai Shimao Enterprises Development Co. Ltd.), a company established in the PRC in which Mr. Xu holds a 93.33% interest
“SPHL”	Shimao Property Holdings Limited, a company incorporated in the Cayman Islands and wholly-owned by Mr. Hui (but which is proposed to be transferred to Overseas Investment pursuant to the Reorganisation) and which is proposed to be the holding company of Mainland China property development and investment interests
“SPHL Group”	SPHL, its subsidiaries and associated companies
“SPHL Offer Shares”	the ordinary shares of HK\$0.10 each in the share capital of SPHL to be offered under the Proposed SPHL Offering
“SPHL Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of SPHL
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Suifenhe Announcement”	the announcement issued by the Company on 23 February 2005 relating to, <i>inter alia</i> , the conditional acquisition of the Suifenhe Shimao Development Project by the Group

DEFINITIONS

“Suifenhe Shimao Development Project”	the property development located in a region designated for the development of cross-border commerce and tourism between the Russia and PRC and is planned to include a mixture of residential, commercial and retail space and warehousing and logistics facilities
“Undertaking”	the non-competition undertaking dated 19 February 2005 entered into between the Company, Mr. Hui, SPHL, Overseas Investment, Mr. Xu, Shimao Enterprises and the A Share Company, pursuant to which, <i>inter alia</i> , the parties agreed to delineate their respective businesses on the terms and conditions set out therein
“Underwriting Agreements”	the Hong Kong underwriting agreement and international purchase agreement to be entered into among SPHL and the underwriters named therein



SHIMAO CHINA HOLDINGS LIMITED

世茂中國控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

Directors:

Mr. Hui Wing Mau (*Chairman and Non-Executive Director*)

Mr. Chung Shui Ming, Timpson

(Chief Executive Officer and Executive Director)

Ms. Hui Mei Mei, Carol

(Deputy Chairman and Executive Director)

Mr. Hui Sai Tan, Jason (*Executive Director*)

Mr. Chan Loo Shya (*Executive Director*)

(appointed on 19 February 2005)

Mr. Tung Chi Shing, Joseph (*Executive Director*)

(appointed on 19 February 2005)

Independent Non-Executive Directors:

Professor Lee Chack Fan

Mr. Liu Hing Hung

Mr. Zhu Wenhui

Registered Office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal Place of Business

in Hong Kong:

Units 4307-12

43/F, Office Tower

Convention Plaza

1 Harbour Road, Wanchai

Hong Kong

26 February 2005

To the Shareholders

Dear Sir or Madam,

Proposed Business Delineation Non-Competition Undertaking constituting a Connected Transaction

INTRODUCTION

The Board announced on 23 February 2005 that it will pursue a business strategy of property development and investment in international markets (including Hong Kong) outside Mainland China and, in this regard, on 19 February 2005, the Company entered into the Undertaking to delineate the Group's business going forward with the property businesses in which Mr. Hui Wing Mau, the Company's Chairman, and his associates are interested.

Under the terms of the Undertaking, Mr. Hui and the relevant parties undertake to the Company not to carry on any property business outside of Mainland China, subject to exceptions. In return for this undertaking, the Group undertakes not engage in the property business in Mainland China, subject to exceptions.

LETTER FROM THE BOARD

The Company has proposed to put the Undertaking to Independent Shareholders for their approval. The Board notes that the Undertaking is not conditional on the Proposed Listing taking place and will become effective once Independent Shareholders' approval has been obtained.

If the Undertaking is approved by Independent Shareholders, the Company will withdraw from the property market in Mainland China and instead focus on other markets, including those in Hong Kong and the Asia Pacific Region. Shareholders should be aware of the risks associated with entering into new markets, such as the Group's ability to identify suitable opportunities, secure appropriate sites and financing as well as understand the demands of local customers.

The Board has also proposed to change the composition of the Board to reflect the strategic business focus of the Group going forward, which involves the appointment of two new executive Directors, the redesignation of the role of one Director and the resignation of seven Directors from the Board. In addition, the Company's name is also proposed to be changed to Shimao International Holdings Limited (世茂國際控股有限公司) to reflect the strategic business focus of the Group going forward, which is to focus on international markets (including Hong Kong) outside of Mainland China. The proposed change of name is expected to be put forward to the Shareholders for their approval at the next annual general meeting of the Company.

The Independent Board Committee has been established to advise the Independent Shareholders and Platinum has been appointed to advise the Independent Board Committee. This circular contains, inter alia, details of the Undertaking, the recommendation of the Independent Board Committee, the letter from Platinum and a notice convening the SGM. Overseas Investment and its associates (who together hold approximately 74.74% of the Company's issued share capital) are connected persons of the Company and will abstain from voting on the resolutions to approve the Undertaking. The voting at the SGM will be conducted by way of a poll. The result of the SGM will be published by way of announcement.

BACKGROUND

The Group's Current Principal Business

The Group's current principal business is property development and investment. The Group currently has the following two property development projects:

- **Mainland China:** Shimao Lakeside Garden, Shanghai, is a 50-50 joint venture with the A Share Company, is a residential property development in Shanghai. The project company of the Shimao Lakeside Garden is a 50% jointly-owned entity with the A Share Company. The Group's interest in Shimao Lakeside Garden is not consolidated into the Group's financial statements. Most of the properties of Shimao Lakeside Garden have been sold and this development is expected to be completed in mid-2005.
- **Hong Kong:** The Genesis, Hong Kong is a luxury residential development located at The Peak, Hong Kong. The Genesis is 100% owned by the Group. The site was originally acquired by the Group in 2001 for HK\$230 million. The Genesis has recently been redeveloped and now comprises a main building held for own-use and two houses for sale.

LETTER FROM THE BOARD

The following table sets out the Group's turnover and profit/(loss) and the contribution from its Mainland China business segment, for each of the two years ended 31 December 2003 and the six months ended 30 June 2004:

Year or period ended:	Turnover from		Profits (or loss)	
	Mainland China business HK\$'000	As % of Group turnover	from Mainland China business HK\$'000	As % of Group profits (or loss)
31 December 2002	107,490	100.0%	(131,310)	80.9%
31 December 2003	579,041	100.0%	170,829	118.4%
30 June 2004	296,635	100.0%	108,744	110.9%

Note: Of the Group's two property developments, The Genesis in Hong Kong was only recently completed. If the two houses of the Genesis were sold during 2005, the sales proceeds would be recognised as turnover during the 2005 financial year. No sales or pre-sale amounts were recorded in respect of The Genesis during the years or period in the above table.

In addition to the main building of The Genesis, the Group has two property investment interests in Mainland China, namely Dongfanghong Shopping Centre in Lanzhou City, Gansu Province and three Retail Units in Epoch Centre Phase II in Beijing. Both of these investments are retail properties that were not originally developed by the Group, but were acquired as investment properties in 2002. The Group intends to continue to hold the investments in Dongfanghong Shopping Centre and Epoch Centre Phase II properties for long-term investment purposes.

The Private Group's Current Principal Business

Mr. Hui and his associates currently hold significant property development interests outside the Group, including the property development and investment interests in Mainland China of the SPHL Group and of the Private Group.

The following table sets out details of the location and planned use of, as well as SPHL's interest in, its eleven property development projects:

Project	Location	Planned Use ⁽¹⁾	Total Estimated Planned GFA (m ²)	SPHL's Interest in the Project	Estimated Completion Date for Whole Project
Shimao Riviera Garden	Shanghai	Residential, Retail	883,217	100% ⁽²⁾	06/2007
Shimao International Plaza	Shanghai	Hotel, Retail	170,935	100%	03/2006
Shimao She Shan	Shanghai	Residential, Hotel	135,416	100%	03/2006
Shimao North Bund	Shanghai	Residential, Hotel	100,472	100%	04/2006
Shimao Olympic Garden	Beijing	Residential, Retail	260,072	80%	12/2007
Shimao Nanjing	Nanjing	Residential, Retail, Hotel	1,460,389	50% ⁽³⁾	12/2010
Shimao Fuzhou	Fuzhou	Residential, Retail	287,717	50% ⁽³⁾	10/2006
Shimao Harbin	Harbin	Residential, Retail	1,703,537	100%	12/2007
Shimao Kunshan	Kunshan	Residential, Retail	1,270,600	50.5% ⁽²⁾	12/2010
Shimao Changshu	Changshu	Residential, Retail, Office, Hotel	1,970,000	100%	06/2008
Shimao Wuhan	Wuhan	Residential, Retail, Office, Hotel	1,907,000	100%	12/2010

LETTER FROM THE BOARD

Notes:

- (1) The planned use of the above projects includes land for which the SPHL Group has not yet obtained land use rights certificates.
- (2) The interests in Shimao Riviera Garden and Shimao Kunshan assume completion of the reorganisation to be undertaken in anticipation of the Proposed SPHL Listing.
- (3) The SPHL Group does not have a controlling interest in the project companies of Shimao Nanjing and Shimao Fuzhou and does not consolidate the results of these projects into its accounts.

The following table sets out details of the location and planned use of property development projects in Mainland China held by the Private Group:

Project	Location	Planned Use ⁽¹⁾	Approximate Total Site Area/ Completed GFA (m ²) ⁽¹⁾	Status
Zhenshi Development Zone	Fujian Province	Composite	93,333 ⁽¹⁾	Substantially completed and sold
Wuyi Tourist Resort	Fujian Province	Tourist and resort	333,331 ⁽¹⁾	Substantially completed and sold
Gold Coast Resort	Fujian Province	Tourist and resort	1,313,045 ⁽¹⁾	Substantially completed
Asia Games Garden	Beijing	Residential	66,369	Substantially completed and sold
Zizhu Garden	Beijing	Residential	152,261	Substantially completed and sold
Royal Garden	Beijing	Residential	94,149	Substantially completed and sold
Epoch Centre	Beijing	Residential, retail	130,618	Substantially completed and sold
Zhenshi Hotel	Fujian Province	Hotel	21,114	Completed
Wuyishan Fishing Lake Hotel	Fujian Province	Hotel	3,735	Completed

Note:

- (1) The measurements for Zhenshi Development Zone, Wuyi Tourist Resort and Gold Coast Resort relate to site area. The measurements for Asia Games Garden, Zizhu Garden, Royal Garden, Epoch Centre, Zhenshi Hotel and Wuyishan Fishing Lake Hotel relate to total completed GFA.

Although Mr. Hui and his immediate family own, through the Private Group, a number of property developments within Mainland China, these developments are either completed or substantially completed. Furthermore, as these development projects (other than the hotels) are primarily developed for sale rather than for investment purposes, they are likely to generate only minimal revenue, if any. Upon the Undertaking becoming effective, the Private Group will not carry on any new property business and its sole business will be investment holding.

The Group's Strategic Business Focus

The Group continuously reviews its business strategy and evaluates opportunities for the Group's development. The management of the Company carries out such reviews on a regular basis and brings suitable proposals to the Board for consideration and, if thought fit, adoption of resolutions. The terms of the Undertaking were provided to all members of the Board on 7 February 2005, which were discussed at a Board meeting held on 15 February 2005. The Undertaking was the subject of a decision taken at further meeting of the Board on 19 February 2005. On the basis of this decision, the Group will

LETTER FROM THE BOARD

pursue a business strategy of property development and investment in international markets outside Mainland China, including those in Hong Kong and the Asia Pacific Region.

In addition, as stated in the Suifenhe Announcement, the Company has entered into an agreement to purchase the Suifenhe Shimao Development Project, subject to conditions (including the approval of Independent Shareholders). The Suifenhe Shimao Development Project is the first significant opportunity in the non-Mainland China market following the entering into of the Undertaking, given that around two-thirds of the overall site of this project (i.e. phases one and two taken together) is located in Russian territory and has been expressly acknowledged by the parties to the Undertaking as a property development project outside of Mainland China for the purposes thereof. See the Suifenhe Announcement and paragraph (4) under “Reasons for and Benefits of the Delineation” below for further details of the Suifenhe Shimao Development Project.

BUSINESS DELINEATION

Principal Terms of the Undertaking

The Company has entered into the Undertaking with Mr. Hui, SPHL, Overseas Investment, Shimao Enterprises and the A Share Company to enable the Group to focus its business activities on property developments and investments in locations outside of Mainland China. The Board will put the Undertaking to Independent Shareholders for their approval.

Under the terms of the Undertaking, each of Mr. Hui, SPHL and Overseas Investment undertakes to the Company that it will not (and will procure that none of its subsidiaries, and will use its best endeavours to procure that none of its associated companies, shall) carry on any property business outside of Mainland China, other than through interests in the Group and Mr. Hui’s interests in properties acquired and held for his own use, including for the use of his family, provided that such activities do not involve any commercial property development. In return for this undertaking, the Company undertakes not to (and will procure that none of its subsidiaries, and will use its best endeavours to procure that none of its associated companies, shall) engage in the property business in Mainland China, except that the Group may continue to undertake its existing property developments and investments in Mainland China.

The Group currently has one property development and two property investments in Mainland China, which it will continue as permitted by the Undertaking. In addition, as stated in the Suifenhe Announcement, the Company has proposed to acquire the Suifenhe Shimao Development Project, a property development project which is located in both Mainland Chinese and Russian territory but, given that around two-thirds of the overall site of this project (i.e. phases one and two taken together) is located in Russian territory,

LETTER FROM THE BOARD

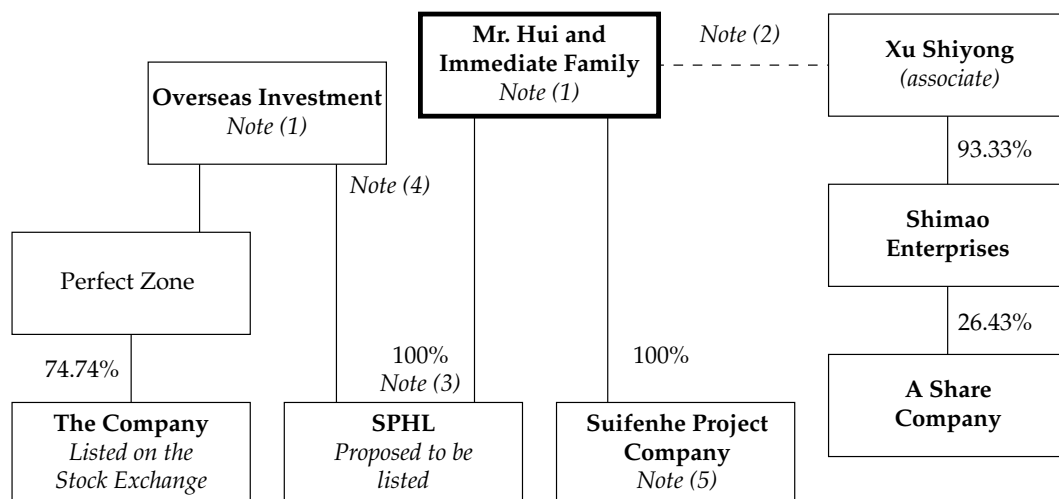
has been expressly acknowledged by the parties to the Undertaking as a property development project outside of Mainland China for the purposes thereof.

The Undertaking will be in place so long as Overseas Investment (the controlling shareholder of both the Group and SPHL) directly or indirectly (through its subsidiaries) holds 30% or more of the issued share capital of the Group and SPHL (or controls the exercise of the voting rights in respect thereof).

A summary of the salient provisions of the Undertaking is set out in the Appendix.

Overview of business delineation between parties to the Undertaking

The following chart shows the shareholding and other relationships between parties to the Undertaking as at the Latest Practicable Date:



Notes:

- (1) Overseas Investment is the controlling shareholder of the Group. It is the trustee of a unit trust all of the units of which are held by the Family Trust, a discretionary trust settled by Mr. Hui of which his wife and children are discretionary objects. The trustee of the Family Trust is Trident Corporate Services (B.V.I.) Limited. Mr. Hui is an excluded class of beneficiary under the Family Trust.
- (2) Mr. Xu Shiyong is Mr. Hui's nephew and his associate for the purposes of Chapter 14A of the Listing Rules.
- (3) Mr. Hui's property development and investment business in Mainland China is currently held by Shimao Property Holdings (BVI) Limited, a company wholly-owned by him. SPHL is proposed to become the holding company pursuant to the Reorganisation.
- (4) Pursuant to the Reorganisation, Overseas Investment will become the controlling shareholder of SPHL upon its Proposed Listing. Upon such Proposed Listing, Mr. Hui will cease to have any ownership interest in SPHL. Mr. Hui is an excluded class of beneficiaries under the Family Trust.
- (5) As stated in the Suifenhe Announcement, the Company has entered into an agreement with Mr. Hui to acquire 100% of the holding company of the Suifenhe Shimao Development Project, subject to certain conditions as referred to in the Suifenhe Announcement, in particular the requirement of approval from Independent Shareholders.

LETTER FROM THE BOARD

The following table sets out a summary of the proposed business delineation between the relevant parties to the Undertaking:

	Principal business prior to the Undertaking	Principal business going forward (Note 1)
The Group:	<p>The Group's principal business is property development in and outside Mainland China. It has recently completed The Genesis in Hong Kong and has been looking at opportunities in the Asia Pacific Region. In addition, the Group proposes to acquire the Suifenhe Shimao Development Project.</p>	<p>Going forward, the Group intends to pursue an international business strategic focus and will withdraw from the property market in Mainland China and instead focus on other markets, including those in Hong Kong and the Asia Pacific Region. Shareholders should be aware of the risks associated with entering into new markets, such as the Group's ability to identify suitable opportunities, securing appropriate sites and financing as well as understanding the demands of local customers.</p>
Mr. Hui and the Private Group:	<p>The Private Group is a collection of companies (including SPHL) owned by Mr. Hui and his immediate family comprising his wife and children. Its principal business is property development in Mainland China.</p>	<p>Mr. Hui's interests in SPHL and the Suifenhe Shimao Development Project are proposed to be transferred to Overseas Investment and the Group, respectively.</p> <p>Going forward, the Private Group will not carry on any new property development business and its sole business will be investment holding.</p>

LETTER FROM THE BOARD

	Principal business prior to the Undertaking	Principal business going forward (<i>Note 1</i>)
Overseas Investment:	<p>Overseas Investment is the trustee of a unit trust, all of the units of which are held by a discretionary trust established by Mr. Hui of which Mr. Hui's immediate family are discretionary objects. It holds a 74.74% controlling interest in the Group and a 25% interest in a Shanghai property development project which is proposed to be acquired by SPHL (which currently holds the remaining 75% interest in such project).</p>	<p>Going forward, Overseas Investment will only hold its shareholding interests in the Company and SPHL.</p> <p>SPHL will undertake large scale property development projects in Mainland China exceeding a minimum gross floor area (i.e. projects that are not "Smaller Residential Projects" or "Smaller Multiple-Use Projects" as defined in the Undertaking (<i>Note 2</i>)).</p>
Mr. Xu and his interests:	<p>Mr. Xu, who is Mr. Hui's nephew and his associate for the purposes of Chapter 14A of the Listing Rules, is the 93.33% controlling shareholder of Shimao Enterprises. Shimao Enterprises holds 26.43% of the A Share Company. The A Share Company's principal business is property development in Mainland China.</p>	<p>Going forward, Mr. Xu and Shimao Enterprises will not carry on any property business except through Shimao Enterprises' 26.43% shareholding interest in the A Share Company.</p> <p>The A Share Company will undertake smaller scale property development projects in Mainland China up to a maximum gross floor area (i.e. projects that are "Smaller Residential Projects" or "Smaller Multiple-Use Projects" as defined in the Undertaking (<i>Note 2</i>)).</p>

LETTER FROM THE BOARD

Notes:

- (1) The Undertaking permits the relevant parties to continue to hold residual interests in Mainland China property developments and investments. Mr. Hui and Mr. Xu may also hold interests in properties acquired and held for personal use, including for the use of their respective families, provided that such activities do not involve any commercial property development. The parties agreed that the Suifenhe Shimao Development Project shall not constitute property business in Mainland China.
- (2) “Smaller Residential Projects” are residential property developments in Mainland China where the total planned construction GFA of the relevant development (or the aggregate planned GFA of all phases where the development is to take place in phases), determined on the basis of master plans, is estimated to be less than 200,000 sq.m.. For these purposes, “residential” property developments means development where not more than 30% of total planned construction GFA, determined on the basis of master plans, are to be constructed for non-residential use. “Smaller Multiple-Use Projects” are mixed property project developments in Mainland China where the total planned construction GFA of the relevant development (or the aggregate planned GFA of all phases where the development is to take place in phases), determined on the basis of master plans, is estimated to be less than 100,000 sq.m.. For these purposes, “mixed” property developments means developments where over 30% of total planned construction GFA, determined on the basis of master plans, are to be constructed for non-residential use.

REASONS FOR AND BENEFITS OF THE DELINEATION

The Directors (including the independent non-executive Directors) consider that the terms of the Undertaking are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors’ view is based on a number of business considerations, among which are those set out in the reasons below. At the Board meeting held on 19 February 2005 to approve the entering into of the Undertaking, all those Directors who have a material interest in the Undertaking abstained from voting as required by the Bye-laws of the Company. The remaining Directors, namely Professor Lee Chack Fan, Mr. Liu Hing Hung and Mr. Zhu Wenhui, who are independent non-executive Directors, voted unanimously in favour of the resolution approving the entering into of the Undertaking. The terms of the Undertaking are normal commercial terms and were arrived at after arm’s length negotiations.

Whilst the business delineation under the Undertaking would restrict the Group from property development and investment activities in Mainland China, and would therefore mean that the Group will no longer undertake one of its major geographical business segments, the Board believes that the entering into of the Undertaking and the delineation of its business from those of Mr. Hui and his associates are in the interests of the Company and the continued development of its business for the reasons stated in this circular.

LETTER FROM THE BOARD

(1) **The operating environment in Mainland China has become increasingly difficult for smaller developers such as the Group**

The Group has in the past focused its efforts on the Mainland China as well as Hong Kong property markets. However, whilst the property market has seen improvement during the past year, the operating environment in the Mainland China property development industry has become increasingly difficult financially for smaller developers such as the Group for the following reasons:

- **Intense competition for quality sites:** As a result of PRC government policies towards land supply in recent years, it has become increasingly difficult for smaller developers such as the Group to secure land for further property developments in Mainland China. In May 2001 and May 2002 respectively, the Shanghai Municipal Government and the Central Government introduced regulations requiring that land use rights for residential property development be sold by public tender, auctions or bidding. This has put the Group in direct competition with larger developers including those from Mainland China and Hong Kong, when quality sites become available. The Board believes that such competition will continue to intensify, particularly since 11 December 2004, when China was required under its WTO commitments to lift most of the limitations on overseas property developers. The competition for quality sites has also led to increases in the price of such sites. Smaller developers do not have the economies of scale of their larger counterparts to offset the increase in unit cost of the land.
- **Macro-economic adjustment measures have affected the availability of financing:** The PRC government has recently taken a number of economic adjustment measures to prevent the PRC economy from overheating. Among these measures are policy initiatives in the financial sector issued in September 2004 to further tighten the lending requirements for real estate developers originally issued in June 2003. The measure that has had a particular impact on the ability of smaller developers to participate in development projects is the restriction on using bank loans to pay land costs. Under applicable PRC regulations, bank loans must be applied towards construction costs. In addition, the requirement on property developers to pay a prescribed percentage of the total value of a real estate project up front has increased from 30% to 35%. These requirements have raised the barriers to entry for property developers and have made it more difficult financially for smaller developers to undertake larger-scale or higher-end development projects, let alone to undertake a number of projects at the same time. Other measures announced by the PRC government over the past two years designed to slow the rapid economic growth of the PRC's economy to a more sustainable level include, among other things, curbing certain high

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growth sectors, including the property market. The measures specific to the property market include limiting the monthly repayment amount under an individual's mortgage loan to 50% of the individual's monthly income and all debt repayments of the individual to 55% of the individual's monthly income. In addition, the People's Bank of China raised both its benchmark lending and deposit interest rates in October 2004. Policies and measures introduced and which may be introduced by the PRC Government including those described above may lead to changes in market conditions, including price instability and an imbalance between supply of, and demand for, properties in the PRC.

The Group's current only property development project in Mainland China is Shimao Lakeside Garden, the site of which was paid for partly through bank loans. The Group's investment in the project company of the Shimao Lakeside Garden project was financed out of the proceeds of a rights issue undertaken in 2002. At that time, the regulations requiring that land use rights for residential property development be sold by public tender, auctions or bidding had not been implemented and therefore the Group was able to secure the site at a reasonable cost.

As the Group currently has no property development projects in Mainland China in the pipeline and does not have a land bank to draw from, the above macro-economic factors would mean that it would be increasingly difficult financially for smaller developers such as the Group to do the following in Mainland China: (a) acquire sites in premium locations such as sites with riverside views and those located in central business districts; (b) acquire and develop large scale projects, and (c) obtain reasonable returns. And given that the Group's "Shimao" brand has been synonymous with large scale quality and luxury developments in premium locations, the Group has had to look elsewhere for more opportunities that are more suitable for smaller developers.

The Company has noted official statements from the PRC government regarding the strengthening of the macro-economic adjustment measures during 2005. Notwithstanding that the Group could have continued to pursue appropriate opportunities in the Mainland China market, the Board believes that there are many markets around the world that do not have centrally planned economies with economic adjustment measures as those described above and that allow developers to finance land cost in a variety of ways more suited to smaller developers, such as instalment payments and loans for land acquisition. For example, the acquisition of the site of The Genesis in Hong Kong in 2001 was financed partly through bank loans. As the Group did not have a land bank other than the sites for Shimao Lakeside Garden and The Genesis, the Group does not have a historic practice of obtaining land banks and development properties.

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(2) The change in strategic business focus of the Group necessitated by the prevailing operating conditions in Mainland China

The prevailing operating conditions in Mainland China has necessitated a change in strategic business focus by the Group. Against the background of a changing operating environment for property developers in Mainland China as described in paragraph (1) above, the Group has also had to face intense competition from other real estate developers. In recent years, a large number of property developers have begun undertaking property development and investment projects in Shanghai (where the Group's only Mainland China development project is located) and elsewhere in Mainland China. These include overseas property developers, including a number of leading Hong Kong property developers. In particular, from 11 December 2004, China was required under its WTO commitments to lift most of the limitations on overseas property developers by relaxing restrictions on the formation of wholly foreign-owned enterprises and removing the limitations on national treatment, as a result of which the Board expects that non-Mainland China property developers will be treated the same under PRC law as PRC property developers. The removal of these limitations may further increase competition in the Mainland China property development sector.

The following table shows the relative sizes of the Group and four other Mainland China property developers listed on the Stock Exchange:

Name of Issuer	Market Capitalisation ⁽¹⁾ HK\$'M	Turnover ⁽²⁾ HK\$'M	NAV ⁽³⁾ HK\$'M	Cash On Hand ⁽³⁾ HK\$'M
Company	968	579	588	9
Shanghai Forte	5,793	2,059	2,784	928
Beijing Capital Land	3,912	1,812	2,045	1,495
New World China	5,994	2,522	16,369	857
China Resources Land	2,765	1,252	4,042	1,312

Notes:

- (1) The market capitalisation is calculated based on the closing market price on 18 February 2005.
- (2) Based on the year ended 31 December 2003, except for New World China, which is based on the year ended 30 June 2004.
- (3) As at 30 June 2004.

Accordingly, the intensifying competition in Mainland China, particularly from larger developers, has driven smaller property developers to look outside of Mainland China, in locations where there are fewer macro-economic policy restrictions, with a more flexible regulatory regime towards funding for land cost. The Board is of the view that this change is necessary, and will be made by the Group, irrespective of other factors, such as SPHL's Proposed Listing, or the proposed acquisition of the Suifenhe Shimao Development Project.

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The Company had in the past (including in its most recent interim report) expected that the implementation of macro-economic adjustment measures in Mainland China would constrain the rapid growth in the over-heated property market in Mainland China. The overall impact of these measure had been minimal and appeared to be having a gradual effect in cooling the economy. However, the impact of the measures on specific industries has taken more time to be seen, as individual industries are affected by other related industries (such as property, steel and banking). As economic indicators and other statistics on the 2004 Mainland China economy are being issued to show a full year impact of the measures for the first time, the Group believes that the operating environment for a smaller developer such as the Group and the opportunities available may reduce. This is evident from official PRC government statements that have re-affirmed the implementation of macro-economic measure. In addition, official statements have also specifically called for the further strengthening of the use of credit measures, such as the tightening of the availability of bank loans to developers and mortgage financing for purchasers. Whilst a set of effective regulations on the economies of Mainland China should in theory result in a healthier and more rational property market and ultimately facilitate the Group to capture more development opportunities, the uncertainties of how long such measures will last and the strength of such measures needed in achieving the goal of a more stable economy could diminish the opportunities that were otherwise available for a smaller developer such as the Group. This is why the Group began to look at opportunities in other locations such as around Asia since last year, as envisaged in the most recent interim report. The Group expects that it will continue to diversify into other markets and (if the Undertaking is approved) exercise its rights under the business delineation to explore further markets in Asia, the Asia Pacific Region as well as nearby markets such as Macau.

As such, the Group has been considering a strategy outside of Mainland China in order to develop its operating space, where the Group can identify suitable markets which do not pose high barriers to entry to smaller developers such as the Group has faced in Mainland China. The Group did not actively consider other opportunities outside Mainland China, other than The Genesis, given that from a resource (including financial and management) point of view, the Group was during the past few years engaged in the Shimao Lakeside Garden and The Genesis projects.

As an example of its efforts to seek opportunities to diversify into locations outside Mainland China and Hong Kong, the Group had, in August 2004, actively pursued an opportunity in Malaysia regarding the purchase of certain property interests for development. A letter of intent was subsequently entered into by the Group following negotiations with the owner of the property. The Group is currently continuing to pursue similar opportunities in the Asia Pacific Region.

- (3) The Undertaking provides the Group the operating space separate from the potentially competing interests of Mr. Hui and his associates that it must have in order to develop its new strategic business focus**

Mr. Hui and his associates currently hold significant property development interests outside the Group, including the property development and investment interests in Mainland China of the SPHL Group and of the Private Group.

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The Group has considered a number of opportunities both in as well as outside Mainland China, including the possible acquisition of Mr. Hui's Mainland China property development and investment business of the SPHL Group. Whilst the acquisition of the SPHL Group would have been an opportunity on a standalone basis, an injection of sizeable assets by Mr. Hui in the form of the SPHL Group would have a number of potential effects on the Group, including the level of debt that it may have to assume in order to finance such purchase as well as the Company's public float (which is currently 25.26%). The Board notes that, as at 30 June 2004, the Group has cash on hand of only around HK\$9 million.

In addition, Mr. Hui is also currently interested in the Suifenhe Shimao Development Project, which is located in a region designated for the development of cross-border commerce and tourism between Russia and the PRC and is planned to include a mixture of residential, hotel, office and retail space and warehousing and logistics, and leisure and entertainment facilities. The Group did not undertake this project at the outset due to its lack of financial resources for a project of this size and the Group's operating environment described above.

The Group faces potential competition from the SPHL Group in Mainland China whether or not the Proposed Listing takes place. The Company has noted that the undertaking is not intended to facilitate the Proposed Listing as it is not conditional upon the Proposed Listing. In the absence of a delineation of the business in the form of a non-competition undertaking, the Group also faces the threat of competition from the property development interests of Mr. Hui and his associates, in the form of the SPHL Group, the Suifenhe Shimao Development Project as well as other geographical markets outside Mainland China (including Hong Kong). The Group understands that SPHL and the Private Group do not currently have any projects in markets outside of Mainland China (and, as such, there is currently no competition in terms of actual projects), although, during 2004, the Private Group also pursued opportunities in South East Asia including Malaysia which has now been discontinued in view of the proposal to enter into the business delineation. But in view of the financial resources of SPHL, it is not inconceivable that, faced with the appropriate opportunities in overseas markets, SPHL could, absent the Undertaking, well readily go into such markets. Whilst the threat of competition would not, of itself, fully justify the Group from refraining from undertaking Mainland China projects, the Board considered and concluded that, on balance, the reasons set out in this letter, including the clarity that the business delineation would achieve, the conditional acquisition of the Suifenhe Shimao Development Project (which is not conditional on the Undertaking), justify the entering into of the Undertaking as being in the interests of the Group to resolve such potential competition. The Company had considered accepting a personal commitment from Mr. Hui not to invest in international markets as a means of avoiding conflict of interest in such markets but such arrangement does not offer the Company protection unless it is legally binding nor would it allow Mr. Hui to satisfy his fiduciary duties to SPHL or his Private Group. On this basis, as the Group has decided to pursue a business strategy away from Mainland China for the reasons described above, the Undertaking serves to protect the Group's interests as it seeks to develop opportunities outside of Mainland China, whilst at the same time, agreeing not to continue its activities in a location from which the Group and other smaller developers are being driven away.

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In addition, the arrangements pursuant to the Undertaking are transparent due to the nature of the Group's business and the method of delineation adopted by the Undertaking. The business of the Group going forward and those of Mr. Hui and his associates have been determined based on geographical delineation under the Undertaking. Due to the fact that property development companies undertake only a limited number of projects at any given time and their activities are all "tangible", a geographical approach to delineation would be transparent, unlike non-competition arrangements which define a space according to defined market or product segments or target markets.

(4) The Suifenhe Shimao Development Project and the geographical delineation afforded to the Group demonstrate the strong commitment from Mr. Hui and his associates to develop the Group's international property development business under the "Shimao" brand

The Undertaking affords the Group a geographical area that underlines the strong commitment from Mr. Hui and his associates to develop the Group's international property development business under the "Shimao" brand, for the following reasons:

- **The Undertaking gives the Group a huge geographical coverage area:** Whilst the business delineation would restrict the Group from its activities in Mainland China, the geographical coverage of the Group's markets in which Mr. Hui and his associates are not permitted to enter are significant, as the Group will be able to enjoy the benefit of an undertaking from Mr. Hui and the relevant parties that they will not carry on any property business outside of Mainland China. Hong Kong, Macau and Taiwan are all potential markets available to the Group pursuant to the Undertaking. Given that the geographical space of Mainland China is limited to its Mainland boundary, the Group will be able to explore opportunities in a significantly larger geographical coverage area than the other property development interests held by Mr. Hui and its associates. Whilst a larger geographical coverage area would not, of itself, give the Group opportunities for new projects, the Board believes that as economies around Asia have recovered, potential opportunities would arise if the Group actively pursued such opportunities. In view of the opportunities afforded to the Group through the potential geographical coverage area for the Group, the restrictions on Mr. Hui and his associates within Mainland China under the proposed delineation, as well as the proposed injection of the Suifenhe Shimao Development Project as a springboard to the international strategy, the Board believes that the Group would be able to effectively develop its markets outside of Mainland China (including the Hong Kong market) to build on its first foray into the markets outside of Mainland China, namely the Hong Kong market, with its redevelopment of The Genesis.
- **The Group's conditional acquisition of the Suifenhe Shimao Development Project further underlines Mr. Hui's commitment:** As stated in the Suifenhe Announcement, Mr. Hui has offered the Group

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the opportunity to acquire the Suifenhe Shimao Development Project, a property development project which is located in a region designated for the development of cross-border commerce and tourism between Russia and Mainland China, which is planned to include a mixture of residential, commercial and retail space and warehousing and logistics facilities. The Suifenhe Project Company is wholly-owned by Mr. Hui.

The Group has been considering and evaluating the opportunity to acquire the Suifenhe Shimao Development Project offered by Mr. Hui and commenced legal and financial due diligence on the Suifenhe Shimao Development Project in September 2004. Announcements were made by the Company on 26 October, 2 November and 11 November 2004 to confirm the existence of discussions with Mr. Hui. As stated in the Suifenhe Announcement, the Company has entered into an agreement with the holding company of the Suifenhe Shimao Development Project, which is wholly-owned by Mr. Hui, to acquire its entire interest in the Suifenhe Shimao Development Project. Please refer to the Suifenhe Announcement for further details of the Suifenhe Shimao Development Project as well as the conditions of the acquisition.

Approximately two-thirds of the aggregate site of phases one and two of the Suifenhe Shimao Development Project is situated in Russian territory and, as such, would be different from the locations of the Group's past projects which have been within the PRC. The parties to the Undertaking agreed that the Suifenhe Shimao Development Project does not constitute property business in Mainland China for the purposes of the Undertaking. Further, the Suifenhe Shimao Development Project will involve warehousing, logistics and leisure and entertainment facilities in addition to the more traditional property development components of residential, hotel, office and retail space. The Group's two main development projects described above were residential developments. The Suifenhe Shimao Development Project is planned to offer a variety of facilities and in a region designated for the development of cross-border commerce and tourism between Russia and the PRC. In addition, on the basis of the relative sizes of the sites of Shimao Lakeside Garden and The Genesis, the Group's current developments, and the Suifenhe Shimao Development Project, the Board believes that the Suifenhe Shimao Development Project has significantly better potential for the Group and represents a significant opportunity for the Group to diversify into more areas of property development. Please refer to the Suifenhe Announcement for further details.

In view of the partial location of the Suifenhe Shimao Development Project in Chinese territory, the Group can leverage on the experience it has accumulated in the Shimao Lakeside Garden in Mainland China by acquiring the Suifenhe Shimao Development Project. In this regard, whilst the acquisition of the Suifenhe Shimao Development Project would

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present the Group with a platform to pursue its international business strategy going forward, the business delineation pursuant to the Undertaking demonstrates the controlling shareholder's commitment to position the Group as an international property developer by undertaking not to enter into markets outside of Mainland China. Mr. Hui has agreed to both the undertaking not to compete outside of Mainland China as well as the acquisition of the Suifenhe Shimao Development Project by the Company irrespective of whether the Proposed Listing takes place.

- **The lack of inter-conditionality of the Suifenhe acquisition demonstrates that the Undertaking is a solution devised in the interests of the Group:** Mr. Hui's sale of the Suifenhe Shimao Development Project is not conditional on the approval of the Undertaking by the Independent Shareholders, nor upon the Proposed SPHL Offering proceeding successfully. The Board believes that this goes to demonstrate that the Undertaking is intended as a solution, rather than something that would continue the current diverse business interests (and in that respect it is not an obstacle to the Group's development notwithstanding that the Group will not undertake new projects in Mainland China), to address the challenges faced by the Group and to ensure the successful development of the Group going forward.
- **The proposed terms for Suifenhe Shimao Development Project further demonstrate Mr. Hui's long-term commitment to the new business strategy:** As further stated in the Suifenhe Announcement, the consideration for the acquisition of the Suifenhe Shimao Development Project involves the issuance of a combination of a convertible note and a promissory note to Mr. Hui's associate which is the controlling shareholder of the Group. Mr. Hui's acceptance of the structure of the consideration represents a long-term commitment to invest in the new strategic business focus of the Group.

(5) Preferential Offer of SPHL Shares to Qualifying Shareholders

Mr. Hui and SPHL recognise that whilst Shareholders may be supportive of the new strategic business focus of the Group and/or the potential of the Suifenhe Shimao Development Project, and therefore vote accordingly at the relevant SGM, Shareholders may also wish to have an ownership interest in the Mainland China business of the SPHL Group. Whilst there can be no certainty that the SPHL Group will ultimately achieve the Proposed Listing, the Board understands that Mr. Hui would like to put forward a proposal to ensure that Shareholders are given an opportunity to invest in the SPHL Group and to secure certain SPHL Shares in the Proposed SPHL Offering. For this reason, SPHL has proposed that, if the Proposed Listing proceeds, Qualifying Shareholders will be invited to apply for the Reserved Shares (representing approximately 5% of the SPHL Offer Shares) on a preferential as well as an assured basis.

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The Board notes that the Preferential Offer as well as the “assured entitlement” thereunder is not required of either SPHL or Mr. Hui under the Listing Rules. Please refer to the paragraph headed “The Proposed Listing – The Preferential Offer” below.

WARNING: SPHL has submitted an application to the Listing Committee for listing of, and permission to deal in, its shares on the main board of the Stock Exchange. The Listing Committee has not given its formal approval in respect of SPHL’s listing application. The Proposed Listing may or may not proceed.

If the formal approval of the Listing Committee in relation to the Proposed Listing is not obtained or if the Proposed SPHL Offering does not proceed for any other reasons, the Preferential Offer will not be made and in such case no Qualifying Shareholder will be entitled to subscribe for any Reserved Shares thereunder.

(6) Proposal to put the Undertaking to Independent Shareholders’ vote

As the Board wishes to ensure that it gives due regard to the range of Shareholders’ interests, the Board has proposed that the Undertaking be subject to Independent Shareholders’ approval. Overseas Investment and its associates will abstain from voting on the resolutions (which will be conducted by way of poll) to approve the Undertaking.

Please refer to the paragraph headed “Independent Board Committee, Platinum and SGM” below.

Enforcement of the Undertaking by the Company

Enforcement of the Undertaking would be undertaken by the Board of the Company. The Bye-laws of the Company provide that Directors shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract etc. in which he/she is materially interested. The Board notes that, following the change in its composition, it will have 7 directors, only two of whom are associates of Mr. Hui. The Company does not consider that there would be potential issues arising in relation to enforcement of the Undertaking. This is because the arrangements pursuant to the Undertaking would be transparent due to the nature of the Group’s business and the method of delineation used in the Undertaking.

Development of non-Mainland China Business

Current non Mainland China Business

The Group’s current principal business is property development and investment. The Group already has an existing property development project outside Mainland China, namely, The Genesis, Hong Kong which is a luxury residential development located at The Peak, Hong Kong. The site was originally acquired by the Group in 2001 for HK\$230 million. The Genesis has recently been redeveloped and now comprises a main building held for own-use and two houses for sale.

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Proposed non Mainland China projects

In addition, as stated in the Suifenhe Announcement, the Company has entered into a conditional agreement to purchase the Suifenhe Shimao Development Project. The Suifenhe Shimao Development Project is the first significant opportunity in the non-Mainland China market following the entering into of the Undertaking, given that around two-thirds of the overall site of this project (i.e. phases one and two taken together) is located in Russian territory.

Asia Pacific opportunities

As property markets have recovered around Asia the Group is currently continuing to pursue opportunities in the Asia Pacific region. The Group expects to initially focus on the Suifenhe Shimao Development Project (if approved by Independent Shareholders) as well as continue to pursue opportunities in South East Asia as well as the larger Asia Pacific Region. As an example of its efforts to seek opportunities to diversify into locations outside Mainland China and Hong Kong, the Group had, in August 2004, actively pursued an opportunity in Malaysia regarding the purchase of certain property interests for development. **Shareholders should be aware of the risks associated with entering into new markets, such as the Group's ability to identify suitable opportunities, securing appropriate sites and financing as well as understanding the demands of local customers.**

Appointment of additional Directors

In line with the business delineation, the Group will focus on property business outside Mainland China in the future, the Board has appointed Mr. Chan Loo Shya and Mr. Tung Chi Shing, Joseph as executive Directors with effect from 19 February 2005. Mr. Chan has over 11 years of property management experience gained in Malaysia and PRC, whereas Mr. Tung has extensive project management experience gained in a number of Hong Kong property development projects.

THE PROPOSED LISTING

WARNING: The Listing Committee has not given its formal approval in respect of SPHL's listing application. The Proposed Listing may or may not proceed.

The Proposed SPHL Offering

The Proposed SPHL Offering is expected to be effected by way of offering of SPHL Offer Shares to the public in Hong Kong, placing of Offer Shares to institutional, professional and individual investors in Hong Kong and other jurisdictions and offering of SPHL Offer Shares to the Qualifying Shareholders under the Preferential Offer. The Reserved Shares are expected to form part of the placing.

The Proposed SPHL Offering is conditional upon (amongst other things):

- (a) the Listing Committee granting formal approval for the listing of, and permission to deal in, all the SPHL Shares in issue and to be issued;

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- (b) the Underwriting Agreements having been executed and the obligations of the underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of such agreements or otherwise; and
- (c) the Reorganisation becoming unconditional in all respects.

The Proposed SPHL Offering will not proceed if the above conditions are not satisfied, whereupon further announcement(s) will be made to keep Shareholders informed of the developments.

The Preferential Offer

It is expected that, subject to the Listing Committee of the Stock Exchange granting formal approval for the listing of, and permission to deal in, the SPHL Shares in issue and to be issued under the Proposed SPHL Offering on the main board of the Stock Exchange, and the fulfilment of other conditions, as mentioned in the section headed "The Proposed SPHL Offering" above, Qualifying Shareholders will be invited to participate in the Proposed SPHL Offering by applying for a set number of Reserved Shares on an assured basis.

With a view to maintaining at least the minimum prescribed percentage of SPHL Shares in the hands of the public in compliance with the Listing Rules immediately after the Proposed SPHL Offering, it is expected that no Reserved Shares under the Preferential Offer will be offered to Overseas Investment and its associates. As a result, the Company understands that it is currently proposed that the Qualifying Shareholders, other than Overseas Investment and its associates, will be given an assured entitlement to subscribe for one Reserved Share for every whole multiple of six Shares held by them at the close of business on the Record Date, subject to a minimum holding to be determined (which shall not be more than 6,000 Shares). **The Company will publish an announcement on or after the Record Date confirming Qualifying Shareholders' entitlement to apply for the Reserved Shares.**

In connection with the Proposed SPHL Offering, the price of the SPHL Offer Shares may be stabilised in accordance with the Securities and Futures (Price Stabilising) Rules (Chapter 517W of the Laws of Hong Kong). Details of any intended stabilisation and how it will be regulated under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) will be contained in the listing document in relation to the Proposed SPHL Offering.

WARNING: The Listing Committee has not given its formal approval in respect of SPHL's listing application. The Preferential Offer may or may not proceed.

If the Preferential Offer proceeds, further announcement(s) will be made by the Company regarding details of the Proposed SPHL Offering, the Preferential Offer, the assured entitlements, the date of the Record Date, the timetable of the Preferential Offer, how to apply for Reserved Shares and, if the timetable for the Proposed SPHL Offering is revised, there will be corresponding changes to the timetable for the Preferential Offer.

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RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Undertaking are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors' view is based on a number of business considerations, among which are those set out in the reasons below. At the Board meeting held on 19 February 2005 to approve the entering into of the Undertaking, all those Directors who have a material interest in the Undertaking abstained from voting as required by the Bye-laws of the Company. The remaining Directors, namely Professor Lee Chack Fan, Mr. Liu Hing Hung and Mr. Zhu Wenhui, who are independent non-executive Directors, voted unanimously in favour of the resolution approving the entering into of the Undertaking. The terms of the Undertaking are normal commercial terms and were arrived at after arm's length negotiations.

INDEPENDENT BOARD COMMITTEE, PLATINUM AND SGM

The Board has proposed to put the Undertaking to Independent Shareholders for approval. Overseas Investment and its associates are connected persons of the Company and will abstain from voting on the resolution to approve the Undertaking. The voting at the SGM will be conducted by way of a poll.

An independent board committee comprising Professor Lee Chack Fan, Mr. Liu Hing Hung and Mr. Zhu Wenhui has been established to advise the Independent Shareholders whether the terms of the Undertaking are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Platinum has been appointed the independent financial adviser to advise the independent board committee.

WARNING: If any changes are made, or required to be made, to the terms of the Undertaking, then, the Company will comply with applicable Listing Rules and obtain further approval from Independent Shareholders at a separately convened special general meeting of the Company.

CHANGE IN BOARD COMPOSITION

As stated in the Announcement, the Board proposed to change the composition of the Board to reflect the strategic business focus of the Group going forward, which involves the appointment of two new executive Directors, the redesignation of the role of one Director and the resignation of seven Directors from the Board. Details of the changes are set out below:

Appointment of Directors

The Board announced that Mr. Chan Loo Shya and Mr. Tung Chi Shing, Joseph were appointed as executive Directors of the Company with effect from 19 February 2005. Details of the background and experience of Mr. Chan and Mr. Tung are set out below.

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Chan Loo Shya, aged 36 and a Malaysian national, is responsible for the corporate finance management/overall financial planning and management of the Group. He graduated from TungkuAbdul Rahman College in Malaysia and is an associate member of the Association of Chartered Certified Accountants. Mr. Chan has over 11 years' experience in accounting, finance and management of which two were gained in Malaysia and nine in the PRC. Mr. Chan worked for Horsedale Development Berhad, a Malaysian property company and was involved in a number property projects in Malaysia as financial management executive including Kota Kemuning, Pan Pacific Glenmarie Resort and Glenmarie Golf and Country Club. Prior to joining the Company, Mr. Chan was a deputy financial controller of the SPHL Group. Mr. Chan has not held any directorship in any listed company in Hong Kong in the last three years.

Tung Chi Shing, Joseph, aged 44, is responsible for the monitoring of project management for the Group's development projects and quality assurance. Mr. Tung graduated from The Hong Kong Polytechnic University and has worked in the Public Works Department of the Hong Kong Government, Dragages et Travaux Publics, FJT (HK) Ltd. and HCCM Nuclear Power Construction Joint Venture Company as quantity surveyor in Hong Kong and was involved in a number of projects including Island Shangrila and Conrad Hotel in Pacific Place, Phase 1B of the University of Hong Kong, Stanley Fort Married Quarters, the Pumping station areas of the Daya Bay Nuclear Power Station and a Xian five-star hotel in the PRC. Prior to joining the Company, Mr. Tung was a project controller of the SPHL Group. Mr. Tung has not held any directorship in any listed company in Hong Kong in the last three years.

The Company takes this opportunity to express its warm welcome to Mr. Chan and Mr. Tung in joining the Board.

Resignation of Directors

The Board announced that Mr. Ip Wai Shing, Mr. Tang Ping Fai and Madam Yao Li, executive Directors, and Mr. Yu Hon To, David and Mr. Lu Hong Bing, independent non-executive Directors, resigned as Directors on 19 February 2005. It is expected that Messrs Chung Shui Ming, Timpson and Hui Sai Tan, Jason, executive Directors, will resign as executive Directors. The foregoing Directors have resigned or intend to resign in order to serve as directors or senior management of SPHL with effect from the date on which SPHL issues its listing document. Mr. Chung has been the chief executive officer of the Company since he joined the Company in May 2004 and is responsible for corporate policies and overseeing the Group's operations. His role will be taken over by Ms. Carol Hui. During his time with the Company, Mr. Jason Hui oversaw the sales and marketing function, including Shimao Lakeside Garden. His role will be taken over by Ms. Carol Hui. During his time with the Company, Mr. Ip oversaw the project management function, including Shimao Lakeside Garden. His role will be taken over by Mr. Tung. During his time with the Company, Mr. Tang oversaw the construction budgeting, cost control and contract administration functions, including Shimao Lakeside Garden. His role will be taken over by Mr. Tung. During her time with the Company, Ms. Yao oversaw

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the human resources, administration, property management and customer services functions, including Shimao Lakeside Garden. Her role will be taken over by Ms. Carol Hui and Mr. Chan. The Board takes this opportunity to express its thanks to Messrs Ip, Tang, Yu and Lu and Madam Yao for their services and contribution to the Group. Such resigning Directors confirmed that there are no matters that need to be brought to the attention of the Shareholders.

Redesignation of Directors

Mr. Hui, Chairman of the Company and executive Director, has been redesignated as non-executive Director but will continue to provide the strategic leadership and direction of the Shimao brand in the Group's international markets as Chairman of the Company.

Board Committees

As a result of the above changes to the composition of the Board, the Board further announced that Mr. Yu Hon To, David has stepped down as Chairman and a member of the audit committee, and Mr. Liu Hing Hung, currently a member of the audit committee, has been appointed Chairman of the audit committee. Professor Lee Chack Fan and Mr. Zhu Wenhui will remain as the other two members of the audit committee.

New Composition of the Board

Upon all of the above changes taking effect, the composition of the Board will be as follows:

Name	Position
Mr. Hui Wing Mau:	Chairman and Non-executive Director
Ms. Hui Mei Mei, Carol:	Deputy Chairman and Executive Director
Mr. Chan Loo Shya:	Executive Director
Mr. Tung Chi Shing, Joseph:	Executive Director
Professor Lee Chack Fan:	Independent non-executive Director
Mr. Liu Hing Hung:	Independent non-executive Director
Mr. Zhu Wenhui:	Independent non-executive Director

The above changes in the composition of the Board would not affect the business operation of the Group. Although a number of the Company's existing Directors have resigned or intend to resign, this is in line with the new business strategic focus of the Group. As the Company currently focuses on property developments both within and outside of Mainland China, the composition of the Board reflects the expertise required to ensure that its Directors possess sufficient knowledge and expertise of the property industry in Mainland China. However, as the Company adopts its new business strategy of focusing on property developments outside Mainland China, the Company has reassessed the composition of its Board

LETTER FROM THE BOARD

to ensure that the backgrounds of the Directors are aligned with the Company's new strategic business focus, and the appointment of Mr. Tung and Mr. Chan as executive Directors of the Company reflects this. The biographies of Mr. Chan and Mr. Tung set out their selected non-Mainland China property development experience. Mr. Chan was previously with the SPHL Group and was involved in the Suifenhe Shimao Development Project. Mr. Hui and Ms. Carol Hui have recently been involved in the redevelopment of The Genesis. At the same time, the resignations of the executive Directors would not affect the business operation of the Group, given that the Group's two developments are reaching completion. Mr. Jason Hui, Mr. Ip, Mr. Tang and Ms. Yao are based in Mainland China and have oversight functions at the Group but the day-to-day responsibility for relevant projects in Mainland China (there being only one) rests with individual project managers on the ground. As the workload arising from the Group's only Mainland China project decreased, Mr. Jason Hui, Mr. Ip, Mr. Tang and Ms. Yao have, since the start of 2003 (except for Mr. Ip, who joined in July 2003), also taken up their current group senior management positions at the SPHL Group with responsibility over its property development projects in their respective areas of expertise. Mr. Hui (as Chairman) and Ms. Carol Hui (as executive Director) will remain on the Board to provide the strategic leadership and direction of the Shimao brand in the Group's international markets, whilst those Directors who intend to resign from the Board are predominantly experienced in the PRC property industry.

CHANGE OF COMPANY NAME

The Board has proposed to change the name of the Company to Shimao International Holdings Limited (世茂國際控股有限公司) to reflect the strategic business focus of the Group going forward, which is to focus on international markets (including Hong Kong) outside of Mainland China. The proposed change of name is expected to be put forward to the Shareholders for approval at the next annual general meeting of the Company.

ADDITIONAL INFORMATION

This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

Yours faithfully,
By Order of the Board
Hui Wing Mau
Chairman



SHIMAO CHINA HOLDINGS LIMITED

世茂中國控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

Independent Board Committee

Professor Lee Chack Fan

Mr. Liu Hing Hung

Mr. Zhu Wenhui

26 February 2005

To the Independent Shareholders

Dear Sir or Madam,

**Proposed Business Delineation
Non-Competition Undertaking Constituting a Connected Transaction**

We refer to a circular of the Company dated 26 February 2005 (the "circular") of which this letter forms a part. The terms used herein shall have the same meanings as defined in the circular unless the context otherwise requires.

As members of the Independent Board Committee, we have been appointed to advise you on whether the terms of the Undertaking are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Details of the Undertaking are set out in the "Letter from the Board" contained in the circular.

We wish to draw your attention to the "Letter from Platinum" to advise us regarding the Undertaking as set out on pages 30 to 53 of the circular. Having considered the advice given by Platinum and the principal factors and reasons taken into consideration by Platinum in arriving at its advice, we are of the opinion that the Undertaking is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the Undertaking at the SGM.

Yours faithfully
For and on behalf of
Independent Board Committee
Professor Lee Chack Fan
Mr. Liu Hing Hung
Mr. Zhu Wenhui

LETTER FROM PLATINUM

The following is the text of a letter from Platinum to the Independent Board Committee and the Independent Shareholders in connection with the terms of the Undertaking which has been prepared for the purpose of inclusion in this circular:



PLATINUM Securities Company Limited

22/F Standard Chartered Bank Building
4 Des Voeux Road Central
Hong Kong

Telephone (852) 2841 7000
Facsimile (852) 2522 2700

26 February 2005

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED BUSINESS DELINEATION NON-COMPETITION UNDERTAKING CONSTITUTING A CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Undertaking, details of which are contained in the letter from the Board as set out in the circular of the Company dated 26 February 2005 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether the Undertaking, on a stand-alone basis, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things: (i) the Announcement; (ii) the interim report of the Group as at 30 June 2004; and (iii) the annual report and accounts of the Group for the year ended 31 December 2003. We have also discussed with management of the Group on their plans and prospects for the Group in light of its new business focus.

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular.

LETTER FROM PLATINUM

We have no reason to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information supplied or opinions expressed in the Circular. In line with normal practice, we have not, however, conducted a verification process of the business and affairs of the Group. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Undertaking.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the Undertaking and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors:

(I) Reasons for and benefits of the Undertaking and the proposed business delineation of the Group from those of Mr. Hui and his associates:

(a) Background of the Undertaking

As announced by the Company on 23 February 2005, after reviews of the Group's business strategy and evaluation of opportunities by the Group in early February 2005, it will pursue a business strategy of property development and investment in international markets (including Hong Kong) outside Mainland China, and in this regard, on 19 February 2005, the Company entered into the Undertaking to delineate the Group's business going forward with the property businesses in which Mr. Hui Wing Mau, the Company's Chairman, and his associates are interested.

The Undertaking is to be put to the Independent Shareholders for their approval at the SGM. Overseas Investment and its associates will abstain from voting on the resolutions to approve the Undertaking. The voting at the SGM will be conducted by way of a poll.

(b) Principal terms of the Undertaking

The Company has entered into the Undertaking with Mr. Hui, SPHL, Overseas Investment, Shimaos Enterprises and the A Share Company to enable the Group to focus its business activities on property developments and investments in locations outside of Mainland China. The Board will put the Undertaking to Independent Shareholders for their approval.

Under the terms of the Undertaking, whilst the proposed business delineation under the Undertaking would restrict the Group from property development and investment activities in Mainland China, and would therefore mean that the Group will no longer undertake one of its geographical business segments, the Group will enjoy the benefit of an undertaking from Mr. Hui and his associates that they will not carry on any property business outside of Mainland China, other than through Mr. Hui's interest in the Group and Mr.

LETTER FROM PLATINUM

Hui's interests in properties acquired and held for his own use, including for the use of his family, provided that such activities do not involve any commercial property development. In return for this undertaking, the Company will agree not to (and will procure that none of its subsidiaries, and will use its best endeavours to procure that none of its associated companies, shall) engage in the property development and investment business in Mainland China, except that the Group may continue to undertake its existing property developments and investments in Mainland China.

The Group currently has one property development and two property investments in Mainland China, which it will continue as permitted by the Undertaking. Further details of the property development projects held by the SPHL Group and the Private Group are disclosed in the letter from the Board of the Circular. Shareholders are advised to consider this letter in conjunction with those details disclosed in the letter from the Board, in particular, the section headed "Overview of business delineation between parties to the Undertaking" and the table summarizing the proposed delineation between the relevant parties to the Undertaking as set out on pages 10 to 13 of the Circular.

The Undertaking will be in place so long as Overseas Investment (the controlling shareholder of both the Group and SPHL) directly or indirectly (through its subsidiaries) holds 30% or more of the issued share capital of the Group and SPHL (or controls the exercises of the voting rights in respect thereof).

(c) Business of the Group and its strategic business focus

The Company is listed on the Stock Exchange, and the Group's current principal business is property development and investment. Beside The Genesis project in Hong Kong, the Group currently has one property development, and two property investments in Mainland China, which will continue as permitted by the Undertaking.

For the property development projects in Hong Kong namely, The Genesis, has recently been completed, whereas, the Shanghai property development project, namely, The Shimao Lakeside Garden project of approximately HK\$420 million, has been substantially pre-sold or sold and is expected to be completed in mid-2005. In addition, the Group has two property investment interests in Mainland China, namely Dongfanghong Shopping Centre in Lanzhou City, Gansu Province and three Retail Units in Epoch Center Phase II in Beijing. The Group intends to hold these two investments for long-term investment purposes.

LETTER FROM PLATINUM

The following table sets out the Group's turnover and profits and the contribution from its Mainland China business segment, for the years ended 31 December 2002 and 2003 and the six months ended 30 June 2004:

Year or period ended:	Turnover from Mainland China business HK\$'000	As % of the Group turnover	Profits (or loss) from Mainland China business HK\$'000	As % of the Group profits (or loss)
31 December 2002	107,490	100%	(131,310)	80.9%
31 December 2003	579,041	100%	170,829	118.4%
30 June 2004	296,635	100%	108,744	110.9%

As stated earlier in our letter, after reviews of the Group's business strategy and evaluation of opportunities by the Group in early February 2005, it will pursue a business strategy of property development and investment in international markets (including Hong Kong) outside Mainland China. In light of this, the Company entered into the Undertaking to delineate the Group's business going forward with the property businesses in which Mr. Hui Wing Mau, the Company's Chairman, and his associates are interested.

(d) Summary of the reasons for and benefits of the Undertaking and the proposed business delineation of the Group from those of Mr. Hui and his associates as stated by the Board

We note that as stated in the letter from the Board, whilst the proposed business delineation under the Undertaking would restrict the Group from property development and investment activities in Mainland China, and would therefore mean that the Group will no longer undertake one of its geographical business segments, the Board believes that the entering into the Undertaking, on a stand-alone basis, and the proposed business delineation of the Group from those of Mr. Hui and his associates are in the interests of the Company and the continued development of its business, the main reasons of which are summarized below:

- (i) The operating environment in Mainland China has become increasingly difficult for smaller developers such as the Group mainly due to the intense competition for quality sites and macro-economic adjustment measures which have affected the availability of financing;
- (ii) The change in the strategic business focus of the Group necessitated by the prevailing operating conditions in Mainland China;

LETTER FROM PLATINUM

- (iii) The Undertaking provides the Group the operating space to separate from the potentially competing interests of Mr. Hui and his associates that it must have in order to develop its new strategic business focus of pursuing a business strategy of property development and investment in international markets (including Hong Kong) outside Mainland China; and
 - (iv) The Undertaking gives the Group a huge geographical coverage area. Whilst a larger geographical area would not of itself, give the Group opportunities for new projects, the Board believes that as economies around Asia have recovered, potential opportunities would arise if the Group actively pursued such opportunities.
- (e) *Analysis of the Undertaking and the proposed business delineation of the Group from those of Mr. Hui and his associates*

In our assessment of the Undertaking and the proposed business delineation of the Group, we have noted and analysed the following:

- (i) Nature of the Undertaking and the proposed business delineation of the Group from those of Mr. Hui and his associates

Under the terms of the Undertaking, whilst the Group will enjoy the benefit of an undertaking from Mr. Hui and his associates that they will not carry on any property business outside of Mainland China, other than through Mr. Hui's interest in the Group and Mr. Hui's interests in properties acquired and held for his own use, including for the use of his family, provided that such activities do not involve any commercial property development, however the proposed business delineation under the Undertaking would restrict the Group from property development and investment activities in Mainland China, and would therefore mean that the Group will no longer undertake one of its major current geographical business segments.

- (ii) The operating environment for property developments in Mainland China

As stated in the letter from the Board, the operating environment in the Mainland China property development industry has become increasingly difficult financially for smaller developers such as the Group.

As stated in the 2004 interim report of the Group, the implementation of the macro-economic regulatory measures has been expected to constrain the rapid growth of the over-heated real estate market in China. Nevertheless, impact of such measures was minimal. It is expected that, with effective regulations on the economies of China and Shanghai, the property market will become healthier and more rational, and falls in the right track, which will facilitate the Group to

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capture more development opportunities in the future. However we note from the letter from the Board that as economic indicators and other statistics on the 2004 Mainland China economy are being released, the measures seems to be having a gradual effect of cooling the economy. Official PRC government statements have been re-affirming the implementation of macro-economic measures as well as the further strengthening of the use of credit measures. This may create uncertainties of how long such measures will last and the strength of such measures needed in achieving the goal of a more stable economy could diminish the opportunities that were otherwise available or a smaller developer such as the Group. In light of this, we are of the view that the views of the Directors as stated in the letter from the Board are valid.

(1) Competition for quality sites and increase of property prices

With the introduction of the “Rules Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Putting up for Bidding” by the government of the PRC (the “Rules”) in relation to the sale of land use rights in May 2002, which became effective from 1 July 2002, land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be sold through tender, auction or putting up for bidding. Obtaining quality sites by way of agreement, which was a common means of obtaining land use rights in Mainland China before the introduction of the Rules, is no longer allowed since 1 July 2002. As the Rules require public announcement before selling of land use rights, this will attract large property developers to participate in the tender, auction or bidding, and in direct competition with smaller property developers.

Furthermore, the growth rates of land prices in Beijing, Shanghai and Mainland China for the years ended 31 December 2002 and 2003, and for the nine months ended 30 September 2004 are shown below:

Table 1: Growth rates of land prices in Mainland China

	Year ended 31 December 2002	Year ended 31 December 2003	Nine months ended 30 September 2004
Mainland China	6.9%	8.3%	11.6%
Beijing	0.0%	0.6%	3.5%
Shanghai	6.3%	1.6%	14.9%

Source: China infobank

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As shown in Table 1 above, the growth rates of land prices in Mainland China have shown an upward trend. Therefore based on the increasing trend in land prices in Mainland China, acquisitions price of property development sites in Mainland China will resultantly also be higher.

(2) Limited existing property development projects of the Group

As stated in the letter from the Board, the Group currently has no property development projects in Mainland China in the pipeline. The Group's current only property development project in Mainland China is Shimao Lakeside Garden, the site of which was paid for mostly through bank loans. The Group's investment in the project company of the Shimao Lakeside Garden project was financed out of the proceeds of a rights issue undertaken in 2002. At that time, the regulations requiring that land use rights for residential property development be sold by public tender, auctions or bidding had not been implemented and therefore the Group was able to secure the site at a reasonable cost. In addition, based on our discussion with the management of the Company, the land site of Shimao Lakeside Garden was obtained by way of agreement with an independent third party.

Furthermore, as stated in the letter from the Board, the Group does not have a land bank to draw from. Based on our discussion with the management of the Company, the Group attempted to obtain land sites by way of tender, auction or bidding in Mainland China in 2003. However, due to the limited financial resources of the Group, it has encountered difficulties in land acquisition, and these attempts were unsuccessful and resulted in no additions to the Group's land bank. Furthermore, the Group has also assessed pre-selling as an alternative of financing land acquisition, however, due to the time lag, this is not a viable option for financing land acquisition as pre-sell could not be made until after the acquisition of land is completed.

As stated in the 2003 annual report and accounts of the Group and as stated in the letter from the Board, a profile of the Group's major properties are illustrated in Table 2 below:

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Table 2: Profile of major properties of the Group

(i) Investment properties:

Property	Address	Type	Lease term	Gross floor area (square metres)	Remarks
Dong Fang Hong Shopping Centre	Lanzhou City, Gansu Province, the PRC	Commercial	Long lease	19,552	Retail property not originally developed by the Group, but were acquired as investment properties in 2002
3 retail units of Epoch Centre Phase II	Hai Ding District, Beijing, the PRC	Commercial	Long lease	4,710	Retail property not originally developed by the Group, but were acquired as investment properties in 2002
The Genesis-main building and 2 detached houses	23 Severn Road, Hong Kong	Residential	Long lease	2,620	Main building held for own-use and two houses for sale

(ii) Development property:

Property	Address	Type	Equity interest	Gross floor area (square metres)	Remarks
Shimao Lakeside Garden	Shanghai, the PRC	Residential	50%	217,395	Most of the properties have been sold and development is expected to be completed in mid-2005

Source: 2003 annual report and accounts of the Group and Company data

As illustrated in Table 2 above, except for the property development at Shimao Lakeside Garden which is expected to be completed in mid-2005, the Group does not have any other property development projects in Mainland China in the pipeline. In addition, the Group does not have a land bank to draw from. Therefore, in light of the above, the Group will be required to acquire new land for future property development projects which would ultimately draw on its existing cash reserve and/or require external bank borrowings.

(3) Financial position of the Group

As stated in the 2004 interim report and 2003 annual report and accounts of the Group, the Group's cash and bank balances

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amounted to approximately HK\$8.7 million and HK\$25.5 million respectively. In addition, the Group's net gearing ratios were approximately 31.81% and 27.35% as at 30 June 2004 and 31 December 2003 respectively. Calculation of the gearing ratios is based on net external borrowings of the Group to its shareholders' funds.

- (4) Increasing competition in Mainland China from large overseas property developers

On 11 December 2004, the PRC was required under its WTO commitments to lift most of the limitations on overseas property developers by relaxing restrictions on the formation of wholly foreign-owned enterprises and removing the limitations on national treatment, as a result of which the Board expects that overseas property developers will be treated the same under PRC law as PRC property developers. The removal of these limitations may further increase competition in the PRC property development sector.

As stated in the letter from the Board, the Group has been facing intense competition from other property developers in recent years, a large number of property developers from Mainland China and Hong Kong have begun undertaking property development and investment projects in Shanghai (where the Group's only Mainland China development project located) and elsewhere in Mainland China.

In our analysis, we have assessed the growth rate of contracted foreign direct investments ("FDI") in the real estate in Mainland China for the 3 years ended 31 December 2003 and the nine months ended 30 September 2004. This is illustrated in Table 3 below:

Table 3: Growth rate of contracted foreign direct investment in real estate in Mainland China

Year or period	China Contract FDI Real Estate Cumulative Index value	Year-on-year growth rate (%)
Nine months ended 30 September 2004 ⁽¹⁾	9,015.70	48.7
Year ended 31 December 2003	9,105.68	26.2
Year ended 31 December 2002	7,217.10	43.5
Year ended 31 December 2001	5,030.60	(4.0)

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Note⁽¹⁾: 2004 full year amount has not yet disclosed. Growth rate of 9-months ended 30 September 2004 is based on year-on-year growth rate from corresponding 9-month period of the preceding year.

Source: Bloomberg

As illustrated in Table 3 above, the absolute amount of foreign direct investment in real estate in Mainland China as represented by the China Contract FDI Real Estate Cumulative Index has been increasing significantly over the recent years since 2001. Furthermore, we also note that certain large Hong Kong property developers have derived considerable amount of revenue from the property operations in Mainland China. This is summarized in Table 4 below:

Table 4: Percentage of revenue contribution from property operations in Mainland China

Company	% of turnover of the Company
China Overseas Land and Investment Limited	47.7%
Far East Consortium International Limited	45.2%
Hang Lung Group Limited	17.9%
Kerry Properties Limited	31.9%

Source: Bloomberg, latest published annual report and accounts of the respective companies

- (5) Macro-economic adjustment measures have affected the availability of financing in Mainland China
- (i) Limitation on funding requirements for total cost of property development projects

Based on our discussion with the management of the Group, before the adoption of the Notice on Further Strengthening of Real Estate Credit Administration (Yin Fa [2003] No. 121) issued by People's Bank of China (the "PBOC") on 5 June 2003 (the "Notice"), property developers were only required to finance a minimum of 20% of the total costs of property development projects, comprising land costs and construction costs. However, pursuant to the implementation of the Notice, construction loans have to be linked to the credit-worthiness and financial position of the property developer and the progress of the projects. Furthermore, the Notice strictly prohibits banks from advancing working capital loans to real estate developers and also prohibits loans advanced for the payment of grant

fees for land use rights. This results in the minimum financing by real estate developers from their own capital increasing to 30% of the total costs of the projects. Subsequently on 2 September 2004, The China Banking Regulatory Commission (the “CBRC”) issued a Guideline for Commercial Banks of Risks of Real Estate Loans (the “Guideline”) to strengthen the control, which stipulates that not less than 35% of the total investment in a property development project must come from the real estate developer’s own capital for the development project in order for banks to extend loans to the real estate developer. As a result of the implementation of the Guideline, property developers can now borrow bank loans up to only 65% as compared to 80% of the total costs of property development projects as previously allowed.

The funding requirements for property developers for property development projects in Mainland China are summarized in Table 5 below:

Table 5: Comparison of funding requirements for property developer for property development projects in Mainland China

	Minimum % of total costs of the property development projects required to be funded by property developers from their own capital
Before 5 June 2003	20%
Upon implementation of the Notice on 5 June 2003	30%
Upon implementation of the Guideline on 2 September 2004	35%

Source: People’s Bank of China, China Banking Regulatory Commission

(ii) **Limitation on funding requirements for land costs**

Furthermore, it is our understanding from the management of the Group that, property developers used to fund the acquisition of land in Mainland China partly through bank borrowing, which is generally around 50% of

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the land costs, before they obtain the land use rights. According to the Notice mentioned above, commencing from 5 June 2003, a bank could only provide funding to property developers subject to the following four certificates (the “Four Certificates”) having been obtained by the property developers:

1. Land use right certificate (國有土地使用証);
2. Construction land planning permit (建設用地規劃使用証);
3. Construction works planning permit (建設工程規劃使用証); and
4. Work commencement permit (建設工程施工許可証).

The comparison of sources of funding on acquisition of land use rights in Mainland China before and after the adoption of the Notice is summarized below:

Table 6: Comparison of sources of funding on acquisition of land use rights on property developers for property developments in Mainland China

	Sources of funding on acquisition of land use rights
Before the adoption of the Notice	Property developer: 50% Bank: 50%
Upon the adoption of the Notice	Property developer: 100% Bank: 0%

Furthermore, it is our understanding from our discussion with the management of the Group that in general, land costs comprise approximately 20% of the total costs of the property development projects in Mainland China. Therefore, based on the funding restrictions imposed by the PBOC and the CBRC which require property developers to pay all of the land costs and to obtain the Four Certificates before they could obtain bank loans, the costs and capital requirement of property development projects have increased substantially.

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The Board believes the above macro-economic factors would mean that it would be increasingly difficult financially for smaller developers such as the Group to do the following in Mainland China: (a) acquire sites in premium locations; (b) acquire and develop large scale projects or higher-end development projects; and (c) obtain reasonable returns. And given that the Group's "Shimao" brand has been synonymous with large scale quality and luxury developments in premium location, the Group has had to look elsewhere for more opportunity that more suitable for smaller developers. Moreover, the Board believes that there are many markets around the world that do not have centrally planned economies with economic adjustment measures as those described above and that allow developers to finance land cost in a variety of ways more suited to smaller developers, such as installment payments and loans for land acquisition.

(6) Relative size of the Group to other property developers

The market capitalization of the Company amounted to approximately HK\$968 million as at 18 February 2005. Table 7 below shows the relative financial position of other property developers listed on the Stock Exchange which are either: (i) Mainland China property developers; or (ii) with considerable operations (in terms of its total revenue) in Mainland China.

Table 7: Relative financial position of the Group to other property developers listed on the Stock Exchange

Name of listed companies	Market capitalization ⁽¹⁾ <i>HK\$million</i>	Turnover ⁽²⁾ <i>HK\$million</i>	Net asset value ⁽³⁾ <i>HK\$million</i>	Cash on hand ⁽⁴⁾ <i>HK\$million</i>
The Company	968	579	588	9
Kerry Properties Limited	21,921	4,205	29,446	2,260
Hang Lung Group Limited	18,593	5,449	35,206	1,959
China Overseas Land and Investment Limited	13,219	7,618	9,801	4,026
New World China Land Limited	5,994	2,522	16,369	857
Shanghai Forte Land Company, Limited	5,793	2,059	2,784	928
Far East Consortium International Limited	4,495	820	2,896	232
Beijing Capital Land Limited	3,912	1,812	2,045	1,495
China Resources Land Limited	2,765	1,252	4,042	1,312

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Notes:

- (1) The market capitalization is calculated based on the closing market price on 18 February 2005.
- (2) Based on the latest published annual report and accounts of the respective companies.
- (3) Based on the latest published annual report and accounts or interim report of the respective companies.

Source: Bloomberg

As shown in Table 7 above, as compared to other large property developers with considerable operations in Mainland China, the Group is relatively smaller.

In view of the nature of the Undertaking and the proposed business of the Group from those of Mr. Hui and his associates, it would restrict the Group from property development and investment activities in Mainland China, and would therefore mean that the Group will no longer undertake one of its major current geographical business segments.

However, based on our analysis above, in particular:

- (i) the introduction of the Rules leading to increased direct competition for quality sites by large property developers;
- (ii) increasing land prices in Mainland China leading to higher acquisition prices for property development sites in Mainland China;
- (iii) the Group having limited existing property development projects and no land bank to draw from; and
- (iv) increasing competition in Mainland China from large overseas property developers,

we are of the view that the current Mainland China property development market environment is becoming more competitive and difficult to operate in.

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Furthermore, in assessing the financial position of the Group, we note in particular, the following aspects:

- (i) the limited cash reserve of the Group and its existing gearing level;
- (ii) the limitation on funding requirements for total costs of property developments in Mainland China;
- (iii) the limitation on funding requirements for land costs in Mainland China; and
- (iv) the relative smaller size of the Group to other property developers.

In light of the above, we are of the view that due to the relatively smaller size of the Group, it will face difficulties, as a smaller property developer when competing against large property developers in the property development market in Mainland China.

We also note that as stated in the letter from the Board, the Group's "Shimao" brand has been synonymous with large scale quality and luxury developments in premium location. Furthermore, as stated in the 2003 annual report and accounts of the Group, the Group has established itself as a leading high-end property developer in Shanghai amongst buyers. However, based on the limited financial resources of the Group as illustrated above, in acquiring new property sites in Mainland China with a difficult operating environment for the property development industry, the Group will likely be restricted to smaller and/or lower quality sites. In addition, in light of the tightening of property construction financing in Mainland China as stated in the above sections, it is likely that the Group can only acquire larger property developments in Mainland China with the formation of joint ventures with other property developers, which may, based on the financial size of the Group, result the Group to a minority position in the joint venture and therefore not have control on the development and construction of the property development. In view of the above, we are of the opinion that the Group's participation in property development and investment activities in Mainland China is unfavorable.

In light of the above factors, we are of the opinion that the entering of the Undertaking which would restrict the Group from property development and investment activities in Mainland China is acceptable.

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(f) *Analysis of the benefits of the Undertaking and the proposed business delineation of the Group from those of Mr. Hui and his associates*

(i) Separate the Group from potential competing interests of Mr. Hui and his associates

As stated in the letter from the Board, Mr. Hui and his associates currently hold significant property development interests outside the Group, including the property development and investment interests in Mainland China of the SPHL Group and the Private Group. Information relating to current property development projects of the SPHL Group and the Private Group are set out in letter from the Board.

In the absence of a delineation of the business in the form of a non-competition undertaking, the Group also faces the threat of competition from the property development interests of Mr. Hui and his associates, in the form of the SPHL Group, the Suifenhe Shimao Development Project as well as other geographical markets outside Mainland China (including Hong Kong). As stated in the letter from the Board, SPHL and the Private Group do not currently have any projects in markets outside of Mainland China (and, as such, there is currently no competition in terms of actual projects).

However we note that as stated in the letter from the Board, during 2004, the Private Group also pursued opportunities in South East Asia including Malaysia which has now been discontinued in view of the proposal to enter into the proposed business delineation. In addition, based on the aggregate total site area/ gross floor area of the respective property development projects (attributable shareholding interest only) held by the Private Group and SPHL of approximately 2.2 million square metres and 8.6 million square metres respectively as compared to only approximately 0.2 million square metres held by the Group, it is reasonable to assume that the size and the financial resources of the Private Group and SPHL are relatively much stronger than that of the Group.

Therefore, in light of the above, it is not unreasonable to conclude that if an attractive property development opportunity arise outside Mainland China, the Group will face potential threat and competition from the Private Group and SPHL in the absence of the Undertaking and the proposed business delineation of the Group from those of Mr. Hui and his associates.

LETTER FROM PLATINUM

(ii) Transparency of the Undertaking

In addition, as stated in the letter from the Board, the arrangements pursuant to the Undertaking are transparent due to the nature of the Group's business and the method of delineation adopted by the Undertaking. The business of the Group going forward and those of Mr. Hui and his associates have been determined based on geographical delineation under the Undertaking. Due to the fact that property development companies undertake only a limited number of projects at any given time and their activities are all "tangible", a geographical approach to delineation would be transparent, unlike non-competition arrangements which define a space according to defined market or product segments or target markets.

(iii) Nature of the Non Mainland China Markets

On entering the Undertaking, Mr. Hui and his associates will not carry on any new property business outside of Mainland China. Given that the geographical space of Mainland China is limited to its mainland boundary, the Group will be able to explore opportunities in a larger geographical coverage than the other property development interests held by Mr. Hui and his associates (the "Non Mainland China Markets").

However we note that even on entering the Undertaking, although the Group will not face competition from Mr. Hui and his associates, it will nevertheless still face competition from other property developers in the Non Mainland China Markets. In spite of this, based on our understanding from the Board and discussion with the management of the Company, there are many markets around the world that do not have centrally planned economies with economic adjustment measures and allow developers to finance land costs in a variety of ways more suited to smaller developers, such as instalment payments and loans for land acquisitions in Hong Kong, Macau and Singapore.

In light of the above, we concur with the view of the Directors that the Non Mainland China Markets present more opportunities that are more suitable for smaller property developers such as the Group.

LETTER FROM PLATINUM

(iv) Exploration of new markets in the Non Mainland China Markets

As stated in the letter from the Board, the Group expects it will explore further markets in Asia, the Asia Pacific region as well as nearby markets such as Macau. Although we note a possible risk for the Group in exploring new markets outside Mainland China. However we note that the Group had, in August 2004, actively pursued an opportunity in Malaysia regarding the purchase of certain property interests for development. A letter of intent was subsequently entered into by the Group following negotiations with the owner of the property. The Group is currently continuing to pursue similar opportunities in the Asia Pacific region. Furthermore, the successful completion of the redevelopment of The Genesis project in Hong Kong shows its successful property development experience in Hong Kong.

In light of the above, we are of the view that based on the experience of the Group in Hong Kong and the past experience in exploring opportunities in the Asia Pacific region, the possible risk for the Group in exploring new markets outside Mainland China is acceptable.

(v) The recent performances of the Non Mainland China Markets

In formulating our opinion regarding the strategic business focus of the Company in property development and investment in the Non Mainland China Markets, we have reviewed the annual gross domestic product (“GDP”) growth rates for a 5-year period from 1999 to 2003 of the following countries as a proxy of the general economic performances of the Non Mainland China Markets. Furthermore, we have also reviewed the property indices of these countries (the “Indices”) for a 3-year period from 24 February 2002 up to and including 23 February 2005, in assessing the performances of property companies in the respective Non Mainland China Markets.

LETTER FROM PLATINUM

The annual GDP growth rates for the Non Mainland China Markets and for Mainland China for a 5-year period from 1999 to 2003 are shown in Table 8 below:

Table 8: Annual GDP growth rates (5 years)

Countries	2003	2002	2001	2000	1999
	%	%	%	%	%
Non Mainland					
China Markets:					
Australia	2.4	2.7	3.9	1.8	4.0
Hong Kong	3.3	2.3	0.5	10.2	3.4
Indonesia	4.1	3.7	3.4	4.9	0.8
Malaysia	5.2	4.2	0.3	8.5	6.1
The Philippines	4.5	4.4	3.0	6.0	3.4
Singapore	1.1	3.3	(2.4)	9.4	6.4
Thailand	6.7	5.4	2.1	4.8	4.5
 Mainland China	 9.1	 8.0	 7.5	 8.0	 7.1

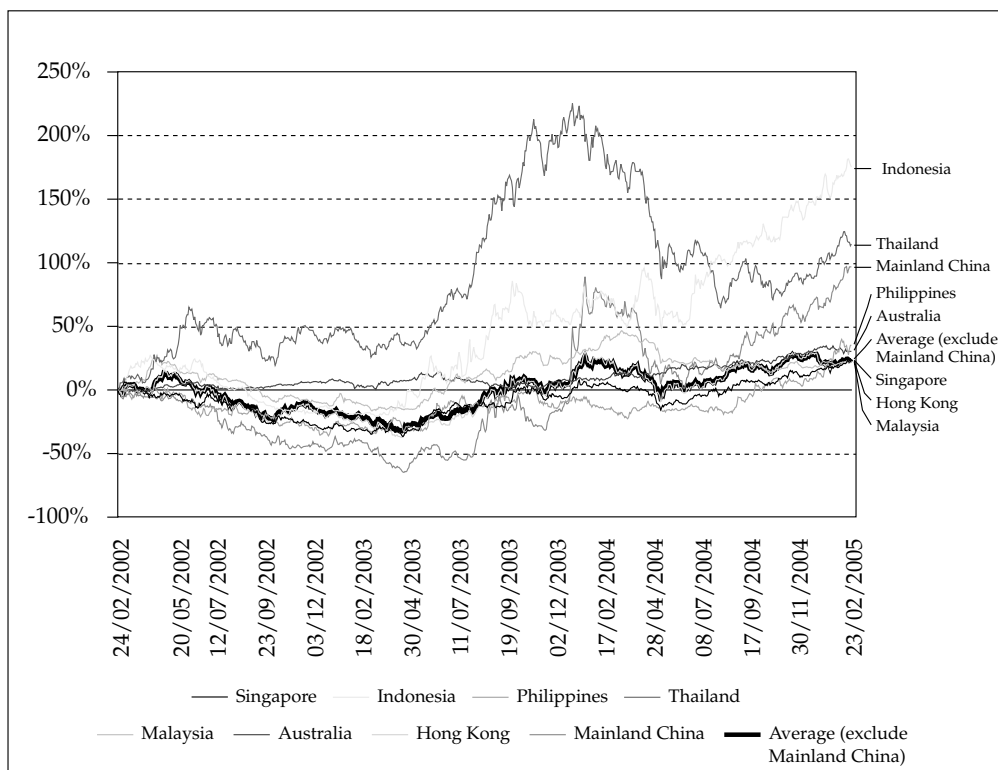
Source: The World Bank Group

Based on Table 8 above, we note that except for a negative growth rate of Singapore in 2001, the annual growth rates for the Non Mainland China Markets, similar to Mainland China, have been positive during the 5-year period. Despite the growth rate of GDP for Mainland China is generally higher than those of the Non Mainland China Markets as shown in Table 8 above, based on our analysis of the restrictions and difficulties faced by the Group in the property development market in Mainland China as shown above, it is an unfavourable market for the Group and its business development. For further details please refer to the section headed "The operating environment for property developments in Mainland China" earlier in our letter.

LETTER FROM PLATINUM

The performances of the Indices as compared to the price performance of the average of the four Mainland China property developers listed on the Stock Exchange (the “Mainland China Property Index”), comprising Shanghai Forte Land Company, Limited, Beijing Capital Land Limited, New World China Land Limited and China Resources Limited, is illustrated in Chart 9 below:

Chart 9: Performances of property stock indices (3 years)



Note: The indices above comprise Singapore Properties Equities Index, Jakarta Stock Exchange Construction Property and Real Estate Index, Philippines Stock Exchange Property Index, Stock Exchange of Thailand Property Development Index, Kuala Lumpur Stock Exchange Property Index, S&P/ASX 200 Property Trust Index, Hang Seng Property Index and the Mainland China Property Index.

Source: Bloomberg

Based on Chart 9 above, discounting the negative effects of 911 incident in late 2002, the Iraqi War and outbreak of Severe Acute Respiratory Syndrome in early 2003 on the general economy and property markets of both Mainland China and the Non Mainland China Markets, the Indices are generally moving along an upward trend during the 3-year period, with an average growth rate of approximately 24.4%. As shown in Chart 9 above, this is generally in line with the Mainland China Property Index for the corresponding period.

LETTER FROM PLATINUM

In light of the above: (i) the positive annual GDP growth rates for the Non Mainland China Markets during the 5-year period; and (ii) the general upward trend of the Indices which indicates the positive return of property companies in the Non Mainland China Markets, we are of the opinion that the recent performances of the property market of the Non Mainland China Markets have been positive and improving.

Having taken into consideration of the benefits of the Undertaking and the proposed business delineation of the Group from those of Mr. Hui and his associates, in particular:

- (i) the separation of the Group from potential interests of Mr. Hui and his associates;
- (ii) the transparency of the Undertaking;
- (iii) the nature of the Non Mainland China Markets;
- (iv) the recent performances of the Non Mainland China Markets,

we are of the opinion that the entering of the Undertaking and the proposed business delineation of the Group from those of Mr. Hui and his associates is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(II) Possible alternatives to the Undertaking for the Group

In addition to the Undertaking, we have also considered the following alternatives which could assist the Group in resolving the potential competition between the Group and the property development interests of Mr. Hui and his associates, in the form of the SPHL Group and of the Private Group.

(a) Remain status quo

The Group has always been in competition with the business of Mr. Hui and his associates in the past. However, in view of: (i) the recent adverse changes in the operating environment of the property development market in Mainland China; and (ii) the potential threat of competition of the business of the Group with those of Mr. Hui and his associates in the Non Mainland China Markets as suggested by the previous pursuit of opportunities in South East Asia including Malaysia by the Private Group during 2004 as stated in the above sections, we are of the opinion that the Group, by not entering into the Undertaking and remaining status quo, will not be in the interests of the Company and the Shareholders as a whole.

LETTER FROM PLATINUM

(b) Change of controlling shareholder of the Group or SPHL Group and/or the Private Group

The potential competition could be resolved by the reduction of Mr. Hui's shareholding in the Group thus becoming a non-controlling shareholder, or alternatively by the disposal of the SPHL Group and/or the Private Group by Mr. Hui and his associates. However, we consider that a disposal of a business due only to competing businesses controlled by a common shareholder and his associates is unreasonable and non-commercial.

(c) Possible injection or acquisition of Mr. Hui's Mainland China property development and investment business

The potential competition could also be resolved by a potential injection or acquisition of Mr. Hui's Mainland China property development and investment business of the SPHL Group. We note from the recent news that the reported estimated size of the SPHL Group significantly exceeds the overall market capitalization and total assets of the Group. As a result, we believe that it is very unlikely that the Group could fund the potential acquisition by its internal resources or by bank borrowings. Moreover, the Independent Shareholders' interests in the Group might be significantly diluted in case the potential injection is funded by issuing new shares to Mr. Hui and his associates.

In view of the above, we are of the opinion that neither the injection nor the acquisition of Mr. Hui's Mainland China property development and investment business of the SPHL Group by either internal resources or issue of new shares is reasonable and practical to the Company and the Shareholders as a whole.

In light of the above alternatives, we are of the opinion that the Undertaking in resolving the potential competition between the Company and the property development interest of Mr. Hui and his associates is reasonable to the Company and the Shareholders as a whole.

(III) Additional considerations from the Board for the Undertaking

(a) Change in Board composition

As stated in the letter from the Board, it is proposed that the composition of the Board be changed to reflect the strategic business focus of the Group going forward. Although we note that five existing Directors has resigned and two other Directors intend to resign, as stated in the letter from the Board, the previous Board composition reflects the expertise required to ensure that its Directors possess sufficient knowledge and expertise of the property industry of Mainland China and those Directors who has resigned or intend to resign from the Board are predominantly experienced in the PRC property industry.

LETTER FROM PLATINUM

Following the entering of the Undertaking and the change in the business focus of the Group to property developments outside Mainland China, the Company has reassessed the composition of its Board to ensure that the backgrounds of the Directors are aligned with the Company's new strategic business focus.

We note that Mr. Hui (as Chairman) and Ms. Carol Hui (as executive Director) will remain on the Board to continue providing strategic leadership and direction of the Shimao brand in the Group's international markets.

Furthermore, the Board has appointed Mr. Chan Loo Shya and Mr. Tung Chi Shing, Joseph as the directors of the Group with effect from 19 February 2005. As stated in the letter from the Board, Mr. Chan has over 11 years in accounting, finance and property management experience gained in Malaysia and the PRC for various property projects, whereas Mr. Tung have extensive international property development project management experience gained in a number of Hong Kong property development projects including public infrastructure and private commercial projects, we consider that the Group would be benefit from the leadership of the new directors of their past experiences in international property development projects as the Group, pursuant to the Undertaking, will change its business focus to property developments outside Mainland China. In addition, as stated in the letter from the Board, we note that the day-to-day responsibility for relevant projects in Mainland China rests in the individual project managers on the ground and given that the Group's two property development projects are reaching completion, therefore subsequent to the resignation of the outgoing Directors, we concur with the view of the Directors that the resignation of these executive Directors would not materially affect the operations of the Group.

(b) Enforcement of the Undertaking by the Company

Enforcement of the Undertaking would be undertaken by the Board of the Company. The Bye-laws of the Company provide that directors shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract etc. in which he/she is materially interested. The Board notes that, following the change in its composition, it will have seven directors, only two of whom are connected persons (namely Mr. Hui and Ms. Carol Hui). The Board does not consider that there would be potential issues arising in relation to the enforcement of the Undertaking. This is because the arrangements pursuant to the Undertaking would be transparent due to the nature of the Group's business and the method of delineation used in the Undertaking.

In view of the above, we consider the enforcement of the Undertaking by the Company is reasonable.

LETTER FROM PLATINUM

RECOMMENDATION

Having considered the principal factors referred to above, we are of the view that the Undertaking is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favor of the Undertaking at the SGM. We also recommend the Independent Shareholders to vote in favor of the Undertaking at the SGM.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Liu Chee Ming
Managing Director

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Alvin Lai
Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND THE ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are deemed under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Interests in the Company

Name of director	Number of Shares			Total
	Personal Interests	Corporate Interests	Other Interests	
Mr. Hui Wing Mau	–	185,185,185 (Note 2)	618,571,397 (Note 1)	803,756,582
Ms. Hui Mei Mei, Carol	–	–	618,571,397 (Note 1)	618,571,397
Mr. Hui Sai Tan, Jason	–	–	618,571,397 (Note 1)	618,571,397

Notes:

- The interest disclosed represents the interest in the Company which is held by Perfect Zone International Limited, a company which is directly wholly-owned by Overseas Investment as trustee of a unit trust, all the units of which are held by Trident Corporate Services (B.V.I.) Limited (formerly known as Ansbacher (BVI) Limited) as trustee of a discretionary trust set up by Mr. Hui for the benefit of his wife and children. Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason are the children of Mr. Hui and accordingly, Mr. Hui, Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason are deemed to be interested in the interest by virtue of section 345(4) of the SFO.
- The interest disclosed represents a conditional interest in a convertible note as described in the Suifenhe Announcement, which is held by Dynamic Keen Developments Limited, a company wholly-owned by Mr. Hui.

Save as disclosed herein, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Directors' right to acquire Shares or debentures

Save as disclosed above, at no time during the year was the Company, its fellow subsidiaries or its ultimate holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisitions of shares in, or debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following companies were interested in 10% or more of the equity interests of the subsidiaries of the Company:

Name	Number of Shares held	Percentage of shareholding
Perfect Zone International Limited	618,571,397 (Note 1)	74.74%
Overseas Investment	618,571,397 (Note 1)	74.74%
Trident Corporate Services (B.V.I.) Limited	618,571,397 (Note 1)	74.74%
Dynamic Keen Developments Limited	185,185,185 (Note 2)	22.38%
Mr. Hui Wing Mau	185,185,185 (Note 2)	22.38%

Notes:

1. The interest disclosed represents the interest in the Company which is held by Perfect Zone International Limited, a company which is directly wholly-owned by Overseas Investment as trustee of a unit trust, all the units of which are held by Trident Corporate Services (B.V.I.) Limited (formerly known as Ansbacher (BVI) Limited) as trustee of a discretionary trust set up by Mr. Hui for the benefit of his wife and children.
2. Mr. Hui's interest is held by his wholly-owned company, Dynamic Keen Developments Limited. This interest represents a conditional interest in a convertible note as described in the Suifenhe Announcement.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person (not being a Director or chief executive of the Company) who has an interest or short position in the Shares or underlying Shares which would fall to be

disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

SUMMARY OF SALIENT TERMS OF THE UNDERTAKING

We summarise below the salient terms of the Undertaking relating to the Company:

- (1) Mr. Hui undertakes to the Company and SPHL that he, members of the Private Group and its associated companies shall not engage in any Property Business. Mr. Hui may, however, have interests in the following:
 - carrying on its existing Mainland China property interests through the Private Group as set out in the paragraph headed “The Private Group’s Current Principal Business” in the Letter from the Board
 - holding interests in the Company and SPHL
 - acquiring and holding properties for his own use, including for the use of his family, provided that such activities do not involve any commercial property development
- (2) The Company undertakes to SPHL that it, its subsidiaries and its associated companies shall not engage in any Property Business in Mainland China. The Company may carry on its existing Mainland China property interests as described in the paragraph headed “The Group’s Current Principal Business” in the Letter from the Board.
- (3) Overseas Investment undertakes to the Company and SPHL that it, its subsidiaries and its associated companies shall not engage in any Property Business. Overseas Investment may, however, have interests in the holding interests in the Company and SPHL, as well as interest transferred to it by Mr. Hui or the Private Group pursuant to Mr. Hui’s estate planning arrangements.
- (4) The parties agreed that the Suifenhe Shimao Development Project shall not constitute Property Business in Mainland China.
- (5) There are also undertakings entered into but that do not concern the Company. Please see the table in the paragraph headed “Overview of the Business Delineation” in the Letter from the Board.

- (6) “Property Business” means any of the following:
- (a) acquiring, holding, developing, transferring, disposing or otherwise dealing in, whether directly or indirectly, land, real estate properties, or property-related investments;
 - (b) engaging, having a right or in any way having an economic interest in the promotion or development of or investment in land or real estate properties;
 - (c) acquiring, holding, transferring, disposing or otherwise dealing in any option, right or interest over any of the matters set out in paragraphs (a) or (b) above; or
 - (d) acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, shares of any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in paragraphs (a) to (c) above.

SERVICE CONTRACTS

None of the Directors (other than Mr. Chan and Mr. Tung) has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

The service contracts entered into by the Company with Mr. Chan and Mr. Tung do not provide for a fixed term of tenure and may be terminated in accordance with the terms thereof. Both Mr. Chan and Mr. Tung will be subject to retirement by rotation of directors pursuant to the Company’s Bye-Laws. The emoluments payable to Mr. Chan and Mr. Tung include a fixed basic salary of HK\$665,000 and HK\$1,012,000 respectively per annum plus a discretionary bonus. The Board determines the above emoluments by taking into consideration their duties and responsibilities within the Group, the prevailing market rates, the Group’s performance and remuneration policy.

MATERIAL INTEREST

None of the Directors or Platinum has any interest, direct or indirect, in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, save as disclosed in this circular and in the Suifenhe Announcement, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group.

MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Company since 31 December 2003, the date to which the latest published combined financials results of the Company were made up.

EXPERT

As at the Latest Practicable Date, Platinum has given and not withdrawn their written consent to the issue of this circular with inclusion of their letter, which has been prepared for inclusion in this circular, and references to their name in the form and context in which it is included.

As at the Latest Practicable Date, Platinum does not have any shareholding interest in any member of the Company or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

GENERAL

- (a) The principal place of business of the Company in Hong Kong is Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited, Ground Floor, Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong. The principal share registrar and transfer office in Bermuda is The Bank of Bermuda Limited, Bank of Bermuda Building, 6 Front Street, Hamilton HM11, Bermuda.
- (b) The Company established an audit committee on 26 March 1999. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises the three independent non-executive Directors, Professor Lee Chack Fan, Mr. Liu Hing Hung and Mr. Zhu Wenhui. Mr. Liu is the Chairman of the audit committee.
- (c) The Bye-laws provide that a poll may be demanded by (i) the chairman of the meeting, (ii) at least three members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting, or (iii) a member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting, or (iv) a member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right. The Bye-laws further provide that a demand by a person as proxy for a member (or, in the case of a member being a

corporation, by its duly authorized representative) shall be deemed to be the same as a demand by a member. As described in this circular, however, Rule 13.39 of the Listing Rules requires the voting at the SGM to be taken by poll.

- (d) The English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday other than public holidays, up to and including 11 March 2005:

- (a) the Undertaking;
- (b) the letter from the Independent Board Committee;
- (c) the letter from Platinum;
- (d) the written consent referred to in the paragraph headed "Expert" above; and
- (e) the services contracts referred to in the paragraph headed "Service Contracts" above.



SHIMAO CHINA HOLDINGS LIMITED

世茂中國控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "SGM") of Shimao China Holdings Limited (the "Company") will be held at 10:00 a.m. on Monday, 14 March 2005, at Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for the purpose of considering, as special business, and, if thought fit, passing the following resolutions (with or without amendment) as ordinary resolutions:

ORDINARY RESOLUTION

"THAT:

- (a) (i) the Undertaking (as defined in the circular dated 26 February 2005 despatched to the shareholders of the Company (the "circular"), a copy of which has been produced to the SGM, marked "A" and initialled by the chairman of the SGM for the purpose of identification) be and is hereby generally and unconditionally approved, confirmed and ratified;
 - (ii) all other transactions contemplated under the Undertaking be and are hereby approved; and
 - (iii) the directors of the Company (the "Directors") be and are hereby authorized to sign any document and/or to take all steps on behalf of the Company which they may consider necessary or expedient to implement and/or give effect to the terms of the Undertaking; and
- (b) any one Director, or any two Directors if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him, her or them to be incidental to, ancillary

SGM NOTICE

to or in connection with the matters contemplated under the Undertaking and to waive compliance from and agree to any amendment to any of the terms of the Undertaking which in the opinion of such Director(s) is not of a material nature and is in the interests of the Company.”

By Order of the Board
Mok Chung Fu, Eric
Company Secretary

Hong Kong, 26 February 2005

Principal place of business in Hong Kong:
Units 4307-12
43rd Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint one or, if he holds two or more shares, more proxies to attend and vote on his behalf. All votes will be taken on a poll. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy so appointed.
2. In order to be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the SGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.