

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Shima China Holdings Limited (the "Company"), you should at once hand this circular with 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 transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



SHIMAO CHINA HOLDINGS LIMITED

世茂中國控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

ACQUISITION OF THE SUIFENHE SHIMAO DEVELOPMENT PROJECT

**MAJOR AND CONNECTED TRANSACTION,
ISSUE OF CONVERTIBLE NOTE
AND
TERMINATION OF EXISTING SHARE OPTION SCHEME
AND
ADOPTION OF NEW SHARE OPTION SCHEME**

Financial adviser



博大資本國際有限公司

Partners Capital International Limited

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



PLATINUM
Securities

A letter from the independent board committee of the Company is set out on page 38 of this circular. A letter from Platinum Securities Company Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 40 to 76 of this circular.

A notice convening the special general meeting of the Company to be held at the Conference Room of the Company's principal office at Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 13 June 2005 at 10:00 a.m. is set out on pages 172 to 174 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch registrar and transfer office in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the meeting should you so wish.

25 May 2005

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	7
The S&P Agreement	9
Shareholding Structure	13
Information on Value Ahead and Suifenhe Shimao	14
The Intertrading Zone	16
Chinese Border of the Intertrading Zone	18
Russian Border of the Intertrading Zone	23
Risk Factors	25
Reasons for the S&P Agreement and the Issue of Convertible Note	27
Change in Board Composition	30
Financial and Trading Prospects of the Group	31
Financial Effects on the Group	33
Termination of the Existing Share Option Scheme and the Adoption of the New Share Option Scheme	34
Recommendations	36
The SGM	36
Procedure by which a Poll may be Demanded	37
Additional Information	37
Letter from the Independent Board Committee	38
Letter from Platinum	40
Appendix I – Accountants’ report on Value Ahead	77
Appendix II – Financial Information of the Group	
Summary of Financial Information	97
Audited Financial Statements	99
Appendix III – Financial Information of the Enlarged Group	127
Appendix IV – Property Valuation	135
Appendix V – Quantity Surveyors’ Report	151
Appendix VI – Summary of the Principal Terms of the New Share Option Scheme	154
Appendix VII – General Information	164
Notice of SGM	172

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Share and the Sale Loan by the Company pursuant to the S&P Agreement
“associates”	has the meaning ascribed to it in the Listing Rules
“Business Associate”	any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners, goods or service provider of any member of the Group
“Board”	the board of Directors, including independent non-executive Directors
“BVI”	the British Virgin Islands
“Capital Values”	as contained in the property valuation report set out in Appendix IV to this circular, (i) the capital value of Property 1 of RMB963,000,000 as stated in note 9 of the valuation certificate for Property 1; (ii) the capital value of Property 2 of RMB53,300,000 as stated in the main body of the valuation certificate for Property 2; and (iii) the capital value of Property 3 of RMB324,000,000 as stated in the main body of the valuation certificate for Property 3
“Company”	Shimao China Holdings Limited, a company incorporated in Bermuda with limited liability, the securities of which are currently listed on and dealt in the Stock Exchange
“Completion”	completion of the Acquisition pursuant to the terms of the S&P Agreement
“Completion Date”	the date on which Completion takes place
“Consideration”	the total consideration payable by the Company to the Vendor for the purchase of the Sale Share and the Sale Loan under the S&P Agreement, which comprises the Share Consideration and the Loan Consideration

DEFINITIONS

“Controlling Shareholder”	Perfect Zone International Limited, a company incorporated in BVI with limited liability and wholly owned by Overseas Investment Group International Limited as trustee of an unit trust, all the units of which are held by Trident Corporate Services (B.V.I.) Limited as trustee of The WM Hui Family Trust, a discretionary trust set up by Mr. Hui for the benefit of his wife and children, being the major Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date
“Convertible Note”	a redeemable convertible note in the aggregate amount of HK\$250,000,000 to be issued by the Company for settlement of part of the Consideration payable under the S&P Agreement
“Conversion Shares”	the new Shares to be issued by the Company upon exercise of the conversion rights attaching to the Convertible Note
“Co-operative Agreement”	a co-operative agreement dated 16 June 2004 entered into between Suifenhe Shimao and the Russian Party for the purpose of laying down the scope and principles of developing the Intertrading Zone
“Director(s)”	the director(s), including the independent non-executive directors, of the Company
“Eligible Participant”	means (a) any full-time employee or directors (including non-executive directors and independent non-executive directors) of any member of the Group; (b) any Business Associate who, at the sole determination of the Board, have contributed or will contribute to the Group
“Enlarged Group”	the Group as enlarged by the Value Ahead Group after Completion
“Existing Share Option Scheme”	the existing share option scheme of the Company adopted by the Company by a written resolution of its sole shareholder on 24 June 1998
“First Phase Land”	two parcels of land located in the Municipality of Suifenhe with a total site area of 722,824.5 sq.m. which are held by Suifenhe Shimao

DEFINITIONS

“Group”	the Company and its subsidiaries and for the purpose of the New Share Option Scheme, its associated companies
“Heilongjiang Land Bureau”	Stated-owned Land Resources Bureau of Heilongjiang Province
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board comprising the independent non-executive Directors, namely Messrs. Lee Chack Fan, Liu Hing Hung and Zhu Wenhui
“Independent Shareholders”	Shareholders other than the Controlling Shareholder and its associates
“Intertrading Zone”	Pogranichny-Suifenhe Intertrading Economic Zone which is located across the national boundary between the Municipality of Pogranichny in Russian Federation and the Municipality of Suifenhe in the PRC
“LAT”	Land Appreciation Tax
“Latest Practicable Date”	20 May 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Consideration”	the consideration for the purchase of the Sale Loan to be paid by the Company to the Vendor under the S&P Agreement, which shall be equal to HK\$194,611,000, being the face amount of the Sale Loan as at the date of the S&P Agreement
“Mr. Hui”	Mr. Hui Wing Mau, the Chairman of the Company and Non-executive Director
“New Share Option Scheme”	the share option scheme in its present or any amended form proposed to be adopted by the Company at the SGM, a summary of the principal terms of which is set out in Appendix VI to this circular
“Option(s)”	a right(s) to subscribe for Shares pursuant to the terms of the New Share Option Scheme

DEFINITIONS

“Platinum”	Platinum Securities Company Limited, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“PRC”	the People’s Republic of China, which, for the purpose of the S&P Agreement only, excludes Hong Kong, Taiwan and Macau Special Administrative Region of the PRC
“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 the Directors) as at the Latest Practicable Date which, for the purpose of this definition, does not include the Group
“Promissory Note”	a promissory note in an aggregate principal amount equal to HK\$246,220,000 to be issued by the Company to the Vendor for settlement of part of the Consideration payable under the S&P Agreement
“Russian Party”	《濱海》信息分析封閉性股份有限公司 (Coastal Information Analysis Closed-end Stock Company Limited), a company established in the Russian Federation (whose English and Chinese names are for identification purpose only)
“S&P Agreement”	the sale and purchase agreement dated 19 February 2005 entered into between the Company, the Vendor and Mr. Hui, pursuant to which, inter alia, the Company agreed to acquire and the Vendor agreed to sell the Sale Share and the Sale Loan
“Share Consideration”	HK\$301,609,000, being the consideration for the purchase of the Sale Share to be paid by the Company to the Vendor
“Sale Share”	the one share of US\$1.00 beneficially owned by and registered in the name of the Vendor, representing the entire issued share capital of Value Ahead
“Sale Loan”	the amount due from Value Ahead to the Vendor as at the Completion Date which shall not be less than HK\$194,611,000

DEFINITIONS

“Second Phase Land”	the remaining portion of land located in the Municipality of Suifenhe with a site area of approximately 807,175 sq.m.
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at the Conference Room of the Company’s principal office at Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 13 June 2005 at 10:00 a.m. for approving the S&P Agreement and the transactions contemplated thereunder and the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	holders of Shares
“Shimao Jianshe”	上海世茂建設有限公司 (Shanghai Shimao Jianshe Company Limited), an enterprise established in the PRC and beneficially and wholly owned by Mr. Hui
“SPHL”	Shimao Property Holdings Limited, a company incorporated in the Cayman Islands and currently wholly owned by Mr. Hui
“SPHL Group”	SPHL, its subsidiaries and associated companies
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Suifenhe Land Bureau”	Stated-owned Land Resources Bureau of Suifenhe
“Suifenhe Shimao”	綏芬河世茂開發建設有限公司 (Suifenhe Shimao Development & Construction Company Limited), a wholly foreign owned enterprise established in the PRC on 13 April 2004
“Suifenhe Shimao Development Project”	the property development project being undertaken by Suifenhe Shimao
“Value Ahead”	Value Ahead Investments Limited, a company incorporated in BVI with limited liability and wholly owned by the Vendor

DEFINITIONS

“Value Ahead Group”	Value Ahead and Suifenhe Shimao, together with their respective subsidiaries (if any)
“Vendor”	Dynamic Keen Developments Limited, a company incorporated in BVI with limited liability and wholly owned by Mr. Hui
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC and for the purpose of this circular, RMB is translated into Hong Kong dollars at fixed rate of RMB1.06 = HK\$1.00
“US\$”	United States Dollar, the lawful currency of the United States of America and for the purpose of this circular, US\$ is translated into Hong Kong dollars at fixed rate of US\$1.00 = HK\$7.80
“sq.m.”	square metres
“%”	per cent.

LETTER FROM THE BOARD



SHIMAO CHINA HOLDINGS LIMITED
世茂中國控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

Directors:

Hui Wing Mau (*Chairman and Non-executive Director*)

Chung Shui Ming, Timpson (*Chief Executive Officer
and Executive Director*)

Hui Mei Mei, Carol (*Deputy Chairman
and Executive Director*)

Hui Sai Tan, Jason (*Executive Director*)

Tung Chi Shing (*Executive Director*)

Chan Loo Shya (*Executive Director*)

Independent Non-executive Directors:

Lee Chack Fan

Liu Hing Hung

Zhu Wenhui

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business

in Hong Kong:

Units 4307-12

43rd Floor, Office Tower

Convention Plaza

1 Harbour Road, Wanchai

Hong Kong

25 May 2005

To the Shareholders,

Dear Sir or Madam,

ACQUISITION OF THE SUIFENHE SHIMAO DEVELOPMENT PROJECT

**MAJOR AND CONNECTED TRANSACTION,
ISSUE OF CONVERTIBLE NOTE**

AND

TERMINATION OF EXISTING SHARE OPTION SCHEME

AND

ADOPTION OF NEW SHARE OPTION SCHEME

INTRODUCTION

On 23 February 2005, the Board announced that on 19 February 2005, the Company has entered into the S&P Agreement to acquire the Sale Share and the Sale Loan of Value Ahead from the Vendor, subject to, amongst other things, Independent Shareholders' approval.

LETTER FROM THE BOARD

The primary asset of Value Ahead is its 100% interest in the registered capital of Suifenhe Shimao which currently holds:

- (i) the First Phase Land, which comprises two parcels of land located in the Municipality of Suifenhe, the PRC with a total site area of 722,824.5 sq.m., on which a commercial and trade centre and a five-star hotel are under construction, for the first phase of development in the Chinese border of the Intertrading Zone; and
- (ii) the contractual rights to acquire the Second Phase Land, which comprises the remaining portion of land located in the Municipality of Suifenhe, the PRC with a site area of approximately 807,175 sq.m., for the second phase of development in the Chinese border of the Intertrading Zone.

As such, the Acquisition is only for the First Phase Land and the contractual rights to acquire the Second Phase Land and the area on the Russian border of the Intertrading Zone is not part of the Acquisition.

Suifenhe Shimao and the Russian Party have entered into the Co-operative Agreement which is a framework agreement for the purpose of laying down the scope and principles of developing across the national boundary between the Municipality of Pogranichny in Russian Federation and the Municipality of Suifenhe in the PRC.

The Acquisition constitutes a major transaction for the Company under the Listing Rules. As the Vendor is wholly owned by Mr. Hui, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and is therefore subject to the approval of the Independent Shareholders at the SGM. The Controlling Shareholder and its associates, being the major Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting at the SGM in respect of the resolution to approve the S&P Agreement and transactions contemplated thereunder.

The Independent Board Committee has been appointed to consider the S&P Agreement and to advise the Independent Shareholders as to whether the terms of the S&P Agreement are fair and reasonable so far as the Independent Shareholders as a whole are concerned and in the interest of the Company. In addition, Platinum has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

To be in line with the current Listing Rules in relation to share option schemes and to enable the Company to grant share options to selected eligible participants as incentive or rewards for their contributions to the Group, the Board also proposes to terminate the Existing Share Option Scheme and to adopt the New Share Option Scheme at the SGM.

The purpose of this circular is to give you further information on details of the Acquisition, the S&P Agreement and transactions contemplated thereunder, details of the New Share Option Scheme as well as to give you the notice of the SGM at which ordinary resolutions will be proposed to consider and, if thought fit, approve the S&P Agreement,

LETTER FROM THE BOARD

the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme.

THE S&P AGREEMENT

Parties

Date:	19 February 2005
Purchaser:	The Company
Vendor:	Dynamic Keen Developments Limited
Guarantor:	Mr. Hui

Assets to be acquired

Sale Share:	one share of US\$1.00 in the issued share capital of Value Ahead, representing the entire issued share capital of Value Ahead
Sale Loan:	the amount due from Value Ahead to the Vendor on the Completion Date which shall not be less than HK\$194,611,000 (being the outstanding amount due from Value Ahead to the Vendor as at the date of the S&P Agreement)

Consideration and payment terms

The Consideration for the Acquisition comprises the Share Consideration and the Loan Consideration. The Share Consideration is HK\$301,609,000 and the Loan Consideration is HK\$194,611,000. The Consideration, being the aggregate of the Share Consideration and the Loan Consideration, payable by the Company to the Vendor for the Acquisition of HK\$496,220,000, represents a discount of approximately 2.9% to the sum of the audited consolidated net deficit of Value Ahead Group as at 31 December 2004 of approximately HK\$3,620,000, the valuation surplus after deferred taxation effect of the property interests of Suifenhe Shimao of approximately HK\$319,846,000 (based on the valuation of the property interests of Suifenhe Shimao as at 30 April 2005) and the outstanding loan due from Value Ahead to the Vendor as at 31 December 2004 of HK\$194,611,000. The Consideration was negotiated on an arm's length basis and was determined with reference to the audited consolidated net deficit of Value Ahead Group at 31 December 2004, the valuation surplus after deferred taxation effect of the property interests of Suifenhe Shimao, the outstanding loan due from Value Ahead to the Vendor as at 31 December 2004 and the contractual rights of Suifenhe Shimao to acquire a total of 153 hectares (equivalent to 1,530,000 sq.m.) of land for exclusive development within the Chinese border of the Intertrading Zone as detailed below. The Consideration shall be satisfied by way of issue of the Convertible Note and the Promissory Note in the following manners:

- (i) as to HK\$250,000,000, by way of issuance of the Convertible Note on the Completion Date; and

LETTER FROM THE BOARD

- (ii) as to the balance of HK\$246,220,000, by way of issuance of the Promissory Note on the Completion Date.

Permission is required to be obtained from Heilongjiang Land Bureau for the grant of the First Phase Land to Suifenhe Shimao. The Board intends that the Company shall not proceed with Completion if the permission cannot be obtained. If such permission from Heilongjiang Land Bureau can be obtained on condition that additional land premium for the First Phase Land should be paid by Suifenhe Shimao, the Board intends that the Company shall not proceed with Completion unless the Vendor will pay for the additional land premium as required by Heilongjiang Land Bureau. After completion of the construction of the Shimao International Commercial and Exhibition Centre (Phase I) and the five-star hotel, the Group will proceed to negotiate with the relevant governmental authority of the Municipality of Suifenhe in relation to the acquisition of the Second Phase Land and make payment for the required land premium for the acquisition of the Second Phase Land. Both the above additional land premium for the First Phase Land and the land premium for the Second Phase Land cannot be estimated at this stage. Before Completion, the Group will not contribute any fundings for the Suifenhe Shimao Development Project.

Principal terms of the Convertible Note

Principal amount:	HK\$250,000,000
Interest:	1% per annum, payable in arrears on the last day of every six months period from the date of issue of the Convertible Note
Maturity date:	Second anniversary of the date of issue of the Convertible Note
Conversion period:	After the first anniversary of the date of issue of the Convertible Note up to the maturity date
Conversion price:	HK\$1.35 per Share (subject to adjustments as provided in the certificate for the Convertible Note)
Conversion Shares:	185,185,185 Shares, representing approximately 18.28% of the enlarged issued share capital of the Company
Early redemption:	At the option of the Company
Transferability:	The Convertible Note can be assigned or transferred in respect of a minimum of HK\$10 million of its outstanding principal amount unless the outstanding principal amount is less than HK\$10 million, in which case the Convertible Note can be assigned or transferred in respect of such entire outstanding principal amount, provided that no transfer shall be made to a connected person (as defined in the Listing

LETTER FROM THE BOARD

Rules) of the Company without the prior approval of the Company. The Company has undertaken to the Stock Exchange that it will inform the Stock Exchange of any transfer of any part of the Convertible Note to a connected person (as defined in the Listing Rules) of the Company

Voting rights of holders of the Convertible Note:	The holder of the Convertible Note will not be entitled to attend or vote at any meeting of the Company by reason only of it being the holder of the Convertible Note
Application for listings:	No listing of the Convertible Note will be sought on the Stock Exchange or any other stock exchanges

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The 185,185,185 Conversion Shares to be issued upon full conversion of the Convertible Note represent approximately 22.38% of the existing issued share capital of the Company and approximately 18.28% of its issued share capital as enlarged by the issue of the Conversion Shares. The initial conversion price of HK\$1.35 per Share represents a premium of 15.38% over the closing price of HK\$1.17 per Share as quoted on the Stock Exchange on 18 February 2005, being the last trading day before the date of the S&P Agreement, and a premium of approximately 21.29% over the average closing price of HK\$1.113 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 18 February 2005.

The Conversion Shares will be issued pursuant to the resolution to be approved at the SGM.

Principal terms of the Promissory Note

Issuer:	The Company
Principal amount:	HK\$246,220,000
Interest:	2% per annum, payable in arrears on the last day of every six months period from the date of the issue of the Promissory Note
Maturity date:	Fourth anniversary from the date of the issue of the Promissory Note
Security:	The Promissory Note is unsecured
Early repayment:	At the option of the Company

It is expected that the repayment of the Promissory Note will be financed by the internal resources of the Company.

LETTER FROM THE BOARD

Conditions

Completion of the S&P Agreement is conditional upon, inter alia, the following conditions precedent being satisfied:

- (a) the Company being satisfied in all respects in its absolute opinion with the results of a due diligence investigation to be carried out by it and/or its professional advisers on the assets, liabilities, business and prospects of Value Ahead Group and the status, condition and title of the First Phase Land and such investigation having revealed nothing to show that any of the warranties of the Vendor under the S&P Agreement are untrue, misleading or incorrect in any material respect;
- (b) approval of (i) the S&P Agreement and the transactions contemplated therein; and (ii) the issue of the Convertible Note and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attached to the Convertible Note, in each case by ordinary resolution passed at the SGM by the Independent Shareholders;
- (c) the Company having obtained a legal opinion from a firm of PRC lawyers acceptable to it in relation to Suifenhe Shimao and being satisfied in all respects in its absolute opinion with the contents of such legal opinion including but not limited to (i) the status, condition and title of the properties owned by Suifenhe Shimao; and (ii) the due establishment and valid existence of Suifenhe Shimao and the status of the registered capital, licences, permits and approval and assets of Suifenhe Shimao; and
- (d) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, all the Conversion Shares.

The Company shall have the right to waive any or all of the conditions specified in the S&P Agreement except for those in conditions (b) and (d) above. If any of the conditions of the S&P Agreement is not fulfilled or waived by the Company on or before 30 June 2005 or such other date as shall be agreed between the Vendor and the Company, the S&P Agreement shall terminate and none of the parties shall have any claim against the other for costs, damages, compensation or otherwise save in respect of any prior breach of the S&P Agreement. In the event that the above conditions (a) and/or (c) are waived, further announcement with details on reasons for such waiver will be made by the Company. In the event that the above condition (a) is not fulfilled because Suifenhe Shimao is unable to obtain the permission regarding the validity of the land grant for the First Phase Land from Heilongjiang Land Bureau and/or such permission can only be obtained on condition that additional land premium for the First Phase Land should be paid by Suifenhe Shimao and the Vendor does not pay for such additional land premium, the Board intends that the Company will not waive such condition and the S&P Agreement shall be terminated. In the event that the Board changes its intention to waive such condition, the Company will further seek the Independent Shareholders' approval for such waiver.

LETTER FROM THE BOARD

Completion

Completion shall take place within five business day following the date on which all the conditions of the S&P Agreement shall have been fulfilled and/or waived, which is expected to be on or before 30 June 2005 or such other date as shall be agreed between the Vendor and the Company.

SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure upon full conversion, if any, of the Convertible Note:

	Shareholding structure as at the Latest Practicable Date		Shareholding structure upon full conversion of the Convertible Note	
	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage
The Controlling Shareholder <i>(Note 1)</i>	618,571,397	74.74	618,571,397	61.08
The Vendor <i>(Note 2)</i>	–	–	185,185,185	18.28
Public	209,068,489	25.26	209,068,489	20.64
Total	<u>827,639,886</u>	<u>100.00</u>	<u>1,012,825,071</u>	<u>100.00</u>

Notes:

- The Controlling Shareholder, Perfect Zone International Limited, is a company incorporated in BVI with limited liability and wholly owned by Overseas Investment Group International Limited as trustee of an unit trust, all the units of which are held by Trident Corporate Services (B.V.I.) Limited as trustee of The WM Hui Family Trust, a discretionary trust set up by Mr. Hui for the benefit of his wife and children, being the major Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date.
- The Vendor, Dynamic Keen Developments Limited, is a company incorporated in BVI with limited liability and wholly owned by Mr. Hui.

Pursuant to the S&P Agreement, the Vendor agrees not to, and Mr. Hui agrees to procure the Vendor not to, exercise the conversion rights attaching to the Convertible Note to the extent that such exercise would result in the public float of the Shares to fall below the limit prescribed under the Listing Rules from time to time. The Stock Exchange has also indicated that no approval will be given for any Conversion Shares if the issue of the Conversion Shares will result in the breach of Rule 8.05 of the Listing Rules. Upon Completion, the issuance of the Convertible Note will not result in a change of control of the Company.

LETTER FROM THE BOARD

INFORMATION ON VALUE AHEAD AND SUIFENHE SHIMAO

Value Ahead was incorporated in BVI on 5 July 2001 and is wholly owned by the Vendor. The primary asset of Value Ahead is its 100% interest in Suifenhe Shimao. Suifenhe Shimao, which was established on 13 April 2004 for a period of 40 years, is the project company of the Suifenhe Shimao Development Project, a property development project located in a region designated by the Chinese and Russian governments for the development of cross-border commerce and tourism between the PRC and Russian Federation and which is planned to include a mixture of residential, hotel, commercial and retail space and warehousing, logistics and leisure and entertainment facilities. The original cost to the Vendor for the Suifenhe Shimao Development Project as at 31 December 2004 amounted to HK\$194,611,000 which represented the total outstanding amount due from Value Ahead to the Vendor as at 31 December 2004. The total investment amount and the registered capital of Suifenhe Shimao are US\$30 million (equivalent to approximately HK\$234 million) and US\$29.8 million (equivalent to approximately HK\$232.4 million) respectively. Value Ahead has fully contributed the registered capital of Suifenhe Shimao of US\$29.8 million, of which US\$9.5 million (equivalent to approximately HK\$74.1 million) and US\$20.3 million (equivalent to approximately HK\$158.3 million) were contributed in the form of land and cash respectively.

An accountants' report containing audited financial information of Value Ahead Group for the years ended 31 December 2002, 2003 and 2004 is set out in Appendix I to this circular.

Management discussion and analysis

For the year ended 31 December 2002

No revenue of Value Ahead Group was recorded for the year ended 31 December 2002 as Suifenhe Shimao has only commenced its business since its date of establishment on 13 April 2004. For the year ended 31 December 2002, Value Ahead Group recorded loss before and after taxation of approximately HK\$14,000 which represented the incorporation cost of Value Ahead. Its cash and bank balances as at 31 December 2002 amounted to approximately HK\$1,000 and the gearing ratio of Value Ahead Group as at 31 December 2002 was not applicable as Value Ahead was dormant and there were no interest-bearing bank borrowings as at 31 December 2002. Value Ahead Group had no full time staff as at 31 December 2002.

For the year ended 31 December 2003

No revenue of Value Ahead Group was recorded for the year ended 31 December 2003 as Suifenhe Shimao has only commenced its business since its date of establishment on 13 April 2004. For the year ended 31 December 2003, Value Ahead Group recorded profit before and after taxation of approximately HK\$12,000 which was mainly due to a gain on disposal of a dormant subsidiary. Its cash and bank balances as at 31 December 2003 amounted to approximately nil and the gearing ratio of Value Ahead Group as at 31 December 2003 was not applicable as Value Ahead was dormant and there were no interest-bearing bank borrowings as at 31 December 2003. Value Ahead Group had no full time staff as at 31 December 2003.

LETTER FROM THE BOARD

For the year ended 31 December 2004

Value Ahead Group was recorded other revenue of HK\$49,000 for the year ended 31 December 2004 which comprised the interest income. For the year ended 31 December 2004, Value Ahead Group recorded loss before and after taxation of approximately HK\$3,899,000 which was mainly attributable to the increase in administrative expenses as a result of commencement of operation of Suifenhe Shimao. The net deficit of Value Ahead Group as at 31 December 2004 amounted to approximately HK\$3,620,000. Its cash and bank balances as at 31 December 2004 amounted to approximately HK\$30,082,000 and the gearing ratio of Value Ahead Group as at 31 December 2004 was approximately 1.0 (total liabilities of approximately HK\$364,018,000 divided by total assets (comprising mainly land costs and properties under development) of approximately HK\$360,398,000) and there was no interest-bearing bank borrowing as at 31 December 2004.

Value Ahead Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were mainly conducted in RMB which was relatively stable throughout the year. Employees are remunerated according to the nature of their jobs and market trend with built-in merit components incorporated in the annual increment to reward and motivate individual performance. Value Ahead Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law.

The land and property interests of Suifenhe Shimao were valued by Savills (Hong Kong) Limited, the independent property valuer, at an aggregate of RMB773,300,000 (equivalent to approximately HK\$729,528,000) as at 30 April 2005. A property valuation report prepared by Savills (Hong Kong) Limited is set out in Appendix IV to this circular. As mentioned in the valuation certificate for Property 1 under "Group I – Property interests to be acquired by the Group under Development" of the property valuation report, because of the lack of comparable market transactions in the locality in which the property is situated, this valuation has used the residual method which is generally acknowledged as being a less reliable valuation method. The residual method is essentially a means of valuing land by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. It relies upon a series of assumptions by the valuer which produce an arithmetical calculation of the expected current sale value as at the valuation date of the property being developed or held for development or redevelopment. Where the property is located in a relatively under-developed market, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made.

Based on the valuation of the land and property interests of Suifenhe Shimao of RMB773,300,000 (equivalent to approximately HK\$729,528,000) as at 30 April 2005 and the corresponding book value as at 31 December 2004, the valuation surplus after deferred taxation effect attributable to the land and property interests of Suifenhe Shimao amounted to approximately HK\$319,846,000.

As mentioned in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular, the calculation of deferred tax liabilities has not taken into account of the effect of the potential LAT attributable to the Enlarged Group upon the realisation of the property interests which may otherwise amount to approximately HK\$137,201,000, net of income tax saving. The

LETTER FROM THE BOARD

calculation of LAT is based on the Capital Values and the current applicable tax rate of the PRC. As advised by the PRC legal adviser to the Company, the levying of LAT has not yet been actually implemented within the Heilongjiang Province in which the property interests of Suifenhe Shimaο are located and if such non-levying policy remains unchanged, Suifenhe Shimaο for the time being is not required to pay LAT attributable to the appreciation of its property interests. For the purpose of completion of the S&P Agreement, the Company will require and the Vendor and Mr. Hui as guarantor have agreed, to enter into a deed of tax indemnity to indemnify the Company against, inter alia, such amount of potential LAT not exceeding HK\$137,201,000 arising from the valuation surplus of the property interests of Suifenhe Shimaο. If the actual market value of the property interests of Suifenhe Shimaο upon realization are higher than the Capital Values, Suifenhe Shimaο will bear the LAT attributable to the appreciation of its property interests beyond the Capital Values.

Suifenhe Shimaο currently holds (i) the First Phase Land; and (ii) the contractual rights to acquire the Second Phase Land, within the Chinese border of the Intertrading Zone.

THE INTERTRADING ZONE

According to the data of the bureau of statistics of the PRC, the gross domestic products of the PRC for the year ended 31 December 2003 amounted to approximately RMB11,669,400 million (equivalent to approximately HK\$11,008,868 million) whilst the gross domestic products of the PRC for the year ended 31 December 2002 amounted to approximately RMB10,239,800 million (equivalent to approximately HK\$9,660,189 million).

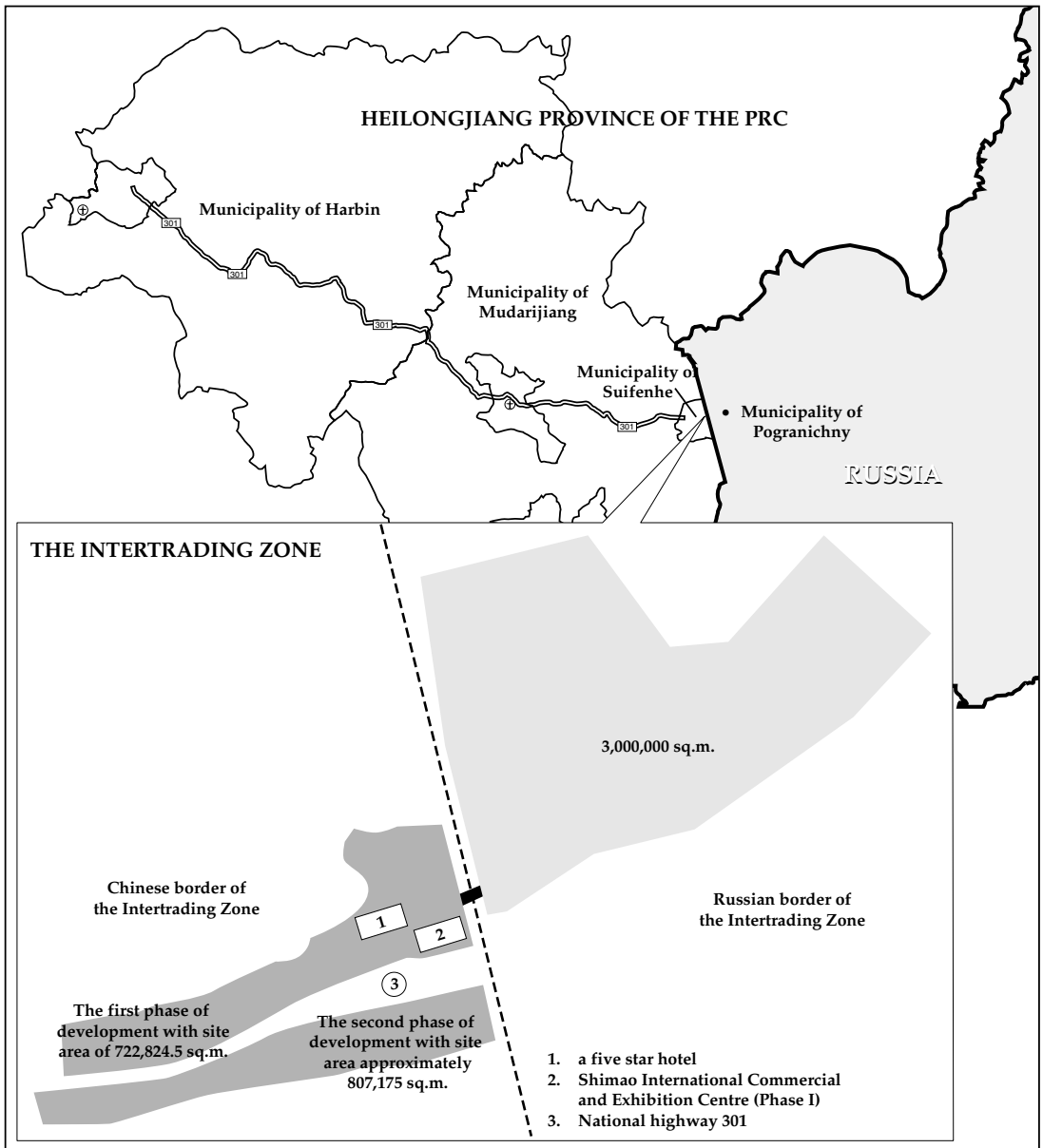
According to the data of the bureau of statistics of the PRC, gross domestic product of the Heilongjiang Province for the year ended 31 December 2003 amounted to approximately RMB443,300 million (equivalent to approximately HK\$418,208 million) whilst gross domestic products of the Heilongjiang Province for the year ended 31 December 2002 amounted to approximately RMB390,200 million (equivalent to approximately HK\$368,113 million).

The Municipality of Suifenhe is a city situated in the south-eastern part of Heilongjiang Province of the PRC and adjoining the national border between the PRC and Russian Federation. As a result of its geographical advantages, the Municipality of Suifenhe has become one of the major ports for Chinese-Russian trades. According to the data of the bureau of statistics of Suifenhe, the gross domestic products of the Municipality of Suifenhe for the year ended 31 December 2003 amounted to approximately RMB1,399.5 million (equivalent to approximately HK\$1,320.3 million) whilst the gross domestic product per capita of the Municipality of Suifenhe for the year ended 31 December 2003 amounted to approximately RMB25,248 (equivalent to approximately HK\$23,819). The total imports/exports were approximately US\$1,906.73 million (equivalent to approximately HK\$14,872.49 million) which comprise imports of approximately US\$921.78 million (equivalent to approximately HK\$7,189.88 million) and exports of approximately US\$984.95 million (equivalent to approximately HK\$7,682.61 million). In particular, the trades with Russian Federation amounted to approximately US\$1,842.1 million (equivalent to approximately HK\$14,368.4 million), representing approximately 96.6% of the total imports/exports of the Municipality of Suifenhe. In 2004, approximately 405,000 visitors travelled to and from the Municipality of Suifenhe.

LETTER FROM THE BOARD

In 1998, the Chinese and the Russian governments reached an agreement to develop Sino-Russian cross border trading zones and simplify the customs formalities for entry into the trading zones such as exemption of entry visa. The development includes, inter alia, a trading economic zone known as Pogradichny-Suifenhe Intertrading Economic Zone which is located across the national border between the Municipality of Suifenhe in the PRC and the Municipality of Pogradichny in Russian Federation. The Intertrading Zone comprises a total site area of 453 hectares (equivalent to 4,530,000 sq.m.), of which 153 hectares (equivalent to 1,530,000 sq.m.) fall within the Chinese border and the remaining 300 hectares (equivalent to 3,000,000 sq.m.) fall within the Russian border. The property development in the Intertrading Zone is planned to facilitate a wide range of functions including, inter alia, international trade, retail and wholesale businesses, exhibitions, bonded warehouses, logistics, resorts, cultural and entertainment facilities.

The location of the Intertrading Zone is shown in the map below:



LETTER FROM THE BOARD

CHINESE BORDER OF THE INTERTRADING ZONE

Pursuant to an agreement dated 19 January 2004 entered into between the Municipal Government of Suifenhe and Shimao Jianshe, a company beneficially and wholly owned by Mr. Hui, the Municipal Government of Suifenhe agreed that Shimao Jianshe shall have the contractual right to acquire 153 hectares (equivalent to 1,530,000 sq. m.) of land, which comprises the First Phase Land and the Second Phase Land, for the exclusive development of the Intertrading Zone on the Chinese border of the Municipality of Suifenhe for a consideration of RMB125,000,000 (equivalent to approximately HK\$117,924,528). Pursuant to a transfer agreement dated 21 October 2004 entered into among the Municipal Government of Suifenhe, Shimao Jianshe and Suifenhe Shimao, all the rights and obligations of Shimao Jianshe were transferred to Suifenhe Shimao. The cost of this transfer to Suifenhe Shimao was RMB125,000,000 (equivalent to approximately HK\$117,924,528). Since further negotiations with the relevant governmental authority of the Municipality of Suifenhe are required to conclude the amount of land premium payable for the acquisition of land use rights of the Second Phase Land, the consideration of RMB125,000,000 (equivalent to approximately HK\$117,924,528) was apportioned as to RMB59,054,289 (equivalent to approximately HK\$55,711,593) to the First Phase Land and as to RMB65,945,711 (equivalent to approximately HK\$62,212,935) to the Second Phase Land within the Chinese border of the Intertrading Zone.

Details of the Chinese border of the Intertrading Zone are as follows:

	Chinese border of the Intertrading Zone	
Description of property interests	(a) The first phase of development comprises the First Phase Land: (1) Group I – Property interests to be acquired by the Group under development; and (2) Group II – Property interests to be acquired by the Group for future development	(b) The second phase of development comprises the Second Phase Land, being the remaining portion of land in the Chinese border of the Intertrading Zone
Site Area	722,824.5 sq.m.	approximately 807,175 sq.m.

LETTER FROM THE BOARD

	Chinese border of the Intertrading Zone	
Original Cost to Suifenhe Shimao:		
– the cost of the contractual rights to acquire 153 hectares (equivalent to 1,530,000 sq.m.) of land for the exclusive development within the Chinese border of the Intertrading Zone	approximately RMB59,054,000 (equivalent to approximately HK\$55,712,000)	approximately RMB65,946,000 (equivalent to approximately HK\$62,213,000)
– acquisition cost of the land use rights	approximately RMB133,926,000 (equivalent to approximately HK\$126,345,000)	To be borne by the Group (Note)
Total:	approximately RMB192,980,000 (equivalent to approximately HK\$182,057,000)	
Development plans	Please refer to the below section headed “The first phase of development in the Chinese border of the Intertrading Zone”	Tentative plan: the property is intended to be developed into an industrial/storage area occupying about 307,000 sq.m. As the plan is in a conceptual stage, the final plan has yet to be negotiated and finalised and may deviate from the tentative plan.
Total and estimated construction costs and professional fees	Please refer to the below section headed “The first phase of development in the Chinese border of the Intertrading Zone”	To be determined
Valuation amount as at 30 April 2005	RMB773,300,000 (equivalent to approximately HK\$729,528,000)	Nil valuation value
Summary of major certificates/approvals:	Please refer to the below section headed “The first phase of development in the Chinese border of the Intertrading Zone”	Have not commenced concrete work and no approval has been obtained

LETTER FROM THE BOARD

Note: After completion of the construction of the Shimao International Commercial and Exhibition Centre (Phase I) and the five-star hotel, Suifenhe Shimao will proceed to negotiate with the relevant governmental authority of the Municipality of Suifenhe in relation to the acquisition of the Second Phase Land within the Chinese border of the Intertrading Zone.

The first phase of development in the Chinese border of the Intertrading Zone

Details of the first phase of development, which comprises the First Phase Land: (1) Group I – property interests to be acquired by the Group under development; and (2) Group II – property interests to be acquired by the Group for future development, in the Chinese border of the Intertrading Zone are as follows:

	(1) Group I – Property interests to be acquired by the Group under development		(2) Group II – Property interests to be acquired by the Group for future development
Description of property interests	(a) a commercial and trade centre known as 世茂國際商展中心 (Shimao International Commercial and Exhibition Centre) (Phase I)	(b) a five-star hotel	Remaining portion of the First Phase Land
Status of construction	Construction is in progress	Construction is in progress	vacant
Site area	38,010 sq.m.	33,924 sq.m.	650,890.5 sq.m.
Gross floor area	79,914 sq.m.	42,767 sq.m.	Estimated 195,000 sq.m. (Note 1)
Development plans	The property will comprise a 3/4-storey commercial building, which will accommodate 1,767 units. It is expected that Suifenhe Shimao will engage a professional management company to operate the property and most of the units at the property will be offered for sale and the remaining property units will be held for lease. Accordingly, revenue to be derived from the property is expected to comprise primarily sales proceeds.	The property will comprise a 6-storey hotel with 301 rooms erected over one podium floor and one basement floor, with restaurants, car parking spaces and other ancillary facilities. It is expected that Suifenhe Shimao will retain an international hotel management company to operate the five-star hotel and will be entitled to the income from the operation of this hotel.	The property is intended to be developed into a second commercial and trade centre of over 100,000 sq.m., a four-star hotel of about 30,000 sq.m., a shopping arcade of about 35,000 sq.m. and an office building of over 30,000 sq.m. etc. The revenue to be derived from the properties to be developed on the remaining portion of the First Phase Land is expected to include sales proceeds and rental income. (Note 1)
Construction costs and professional fees incurred as at 30 April 2005	RMB64,949,000 (equivalent to approximately HK\$61,273,000)	RMB30,596,000 (equivalent to approximately HK\$28,864,000)	RMB8,738,000 (equivalent to approximately HK\$8,243,000)
Outstanding costs to completion as at 30 April 2005	RMB196,271,000 (equivalent to approximately HK\$185,161,000)	RMB190,617,000 (equivalent to approximately HK\$179,827,000)	Estimated RMB760,970,000 (equivalent to approximately HK\$717,896,000) (Note 1)

LETTER FROM THE BOARD

	(1) Group I – Property interests to be acquired by the Group under development		(2) Group II – Property interests to be acquired by the Group for future development
Valuation amount as at 30 April 2005	RMB396,000,000 (equivalent to approximately HK\$373,585,000) (Note 2)	RMB53,300,000 (equivalent to approximately HK\$50,283,000)	RMB324,000,000 (equivalent to approximately HK\$305,660,000)
Expected completion date	May 2006	December 2006	December 2008 (Note 1)
Summary of major certificates/approvals:			
i. State-owned Land Use Rights Grant Contract	Yes	Yes	Yes
ii. Certificate of State-owned Land Use	Yes (Note 3)	Yes (Note 3)	Yes (Note 3)
iii. Construction Land Use Planning Permit	Yes	Yes	No
iv. Construction Works Planning Permit	Yes	Yes	No
v. Construction Works Commencement Permit	Yes	Yes	No
vi. Pre-sale Permit	Yes	No	No
vii. Construction Works Completion Inspection Report	No	No	No

Notes:

- The development plan is preliminary and is subject to finalisation upon completion of construction of Shimao International Commercial and Exhibition Centre (Phase I) and the five star hotel.
- Warning statement: Because of the lack of comparable market transactions in the locality in which the property is situated, this valuation has used the residual method which is generally acknowledged as being a less reliable valuation method. The residual method is essentially a means of valuing land by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. It relies upon a series of assumptions by the valuer which produce an arithmetical calculation of the expected current sale value as at the valuation date of the property being developed or held for development or redevelopment. Where the property is located in a relatively under-developed market, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made.
- The land use rights of the property have already been granted by Suifenhe Land Bureau. According to the confirmation from Suifenhe Land Bureau, the above land grant is authorized by Heilongjiang Land Bureau and Suifenhe Land Bureau has already submitted a formal application for the above land grant to Heilongjiang Land Bureau for approval. There should be no legal impediment in obtaining such permission. However, as there is no time frame for Heilongjiang Land Bureau to grant the permission, the Company cannot confirm/expect the time for Suifenhe Shimao to obtain the land use rights of the property.

LETTER FROM THE BOARD

Generally, pre-sale permit in Municipality of Suifenhe could be obtained after the issuance of the Certificate of State-owned land use; the construction works planning permit and the construction works commencement permit. As set out in the valuation report of Property 1: Shimao International Commercial and Exhibition Centre (Phase I), pursuant to the Commodity Housing Pre-sale Permit issued by Suifenhe Real Estate Administration Bureau on 19 October 2004, 1,767 units of Shimao International Commercial and Exhibition Centre (Phase I) with a total gross floor area of 79,914 sq.m. are permitted to be pre-sold. Pre-sale of property units of Shimao International Commercial and Exhibition Centre (Phase I) has commenced in December 2004 and 21 units of the property were sold subject to various agreements for sale and purchase in a total consideration of RMB12,517,338 as at 30 April 2005. The capital value of Property 1, assuming full completion under the development proposal as stated in note 9 of the valuation certificate for Property 1 as contained in the property valuation report set out in Appendix IV to this circular, as at 30 April 2005 is RMB963,000,000, inclusive of the units that are contracted to be sold and the aggregate value of which is stated at their total contracted amount.

The land use rights of the First Phase Land have already been granted by Suifenhe Land Bureau. According to the confirmation from Suifenhe Land Bureau, the above land grant is authorized by Heilongjiang Land Bureau and Suifenhe Land Bureau has already submitted a formal application for the above land grant to Heilongjiang Land Bureau for approval. There should be no legal impediment in obtaining such permission. In the event that the permission from Heilongjiang Land Bureau cannot be obtained, according to the PRC legal opinion, Suifenhe Land Bureau may be deemed ultra vires in granting the land use rights of the First Phase Land to Suifenhe Shimao and the abovementioned land grant may be considered invalid. In case the abovementioned land grant is considered to be valid, Heilongjiang Land Bureau may also require Suifenhe Land Bureau to revise the land premium of the First Phase Land. According to the PRC legal opinion, although Suifenhe Shimao has not yet obtained permission for the land grant of the First Phase Land from Heilongjiang Land Bureau, pursuant to the Commodity Housing Pre-sale Permit, Suifenhe Shimao can legally commence pre-sale of property units of Shimao International Commercial and Exhibition Centre (Phase I). Prior to the correction of the above situation or the settlement of any revised land premium, the purchasers of the property units of Shimao International Commercial and Exhibition Centre (Phase I) may not be able to register their ownership to the commodity units.

The construction costs and professional fees of Shimao International Commercial and Exhibition Centre (Phase I) and the five star hotel will be financed by the proceeds from pre-sale of property units and future bank borrowings of Suifenhe Shimao which is expected to be in the amount of around RMB100 million (approximately HK\$94 million). The Directors consider that after taking into account the bank borrowings to be obtained by Suifenhe Shimao and the estimated cash inflow from the proceeds from pre-sale of the property units of Shimao International Commercial and Exhibition Centre (Phase I) which has commenced since December 2004, Suifenhe Shimao shall have sufficient funding to finance the construction costs and the professional fees of Shimao International Commercial and Exhibition Centre (Phase I) and the five star hotel. Notwithstanding the fact that it is currently difficult for the small scale property developers to obtain bank financing in the PRC for acquisition of land use rights, it is still practicable for the small scale property developers to obtain banking facilities in the PRC to finance the construction of properties.

LETTER FROM THE BOARD

Pursuant to the S&P Agreement, completion of the S&P Agreement is conditional upon, inter alia, the Company being satisfied in all respects in its absolute opinion with the results of a due diligence investigation to be carried out by it and/or its professional advisers on the assets, liabilities, business and prospects of Value Ahead Group and the status, condition and title of the First Phase Land and such investigation having revealed nothing to show that any of the warranties of the Vendor under the S&P Agreement are untrue, misleading or incorrect in any material respect. As such, in the event that Suifenhe Shimao is unable to obtain the permission regarding the validity of the land grant for the First Phase Land from Heilongjiang Land Bureau on or before 30 June 2005 or such other date as shall be agreed between the Vendor and the Company, the Board intends that such condition will not be waived and the S&P Agreement shall be terminated. If such permission from Heilongjiang Land Bureau can be obtained on condition that additional land premium for the First Phase Land should be paid by Suifenhe Shimao, the Board intends that the Company shall not proceed with Completion unless the Vendor will pay for the additional land premium as required by Heilongjiang Land Bureau. In the event that the Board changes its intention to waive such condition, the Company will further seek the Independent Shareholders' approval for such waiver.

The second phase of development in the Chinese border of the Intertrading Zone

Suifenhe Shimao only has the right to acquire the Second Phase Land for the second phase of development in the Chinese border of the Intertrading Zone. After completion of the construction of the Shimao International Commercial and Exhibition Centre (Phase I) and the five-star hotel, the Group will proceed to negotiate with the relevant governmental authority of the Municipality of Suifenhe in relation to the acquisition of the Second Phase Land within the Chinese border of the Intertrading Zone and make payment for the required land premium for the acquisition of the Second Phase Land. The land premium for the acquisition of the land use rights has yet to be negotiated.

The second phase of development in the Chinese border of the Intertrading Zone is tentative and further negotiations with the relevant governmental authority of the Municipality of Suifenhe are required to conclude the amount of land premium payable for the acquisition of the land use rights of the Second Phase Land. Subject to the terms and conditions to be negotiated, the acquisition of the Second Phase Land on the Chinese border of the Intertrading Zone may or may not materialize.

RUSSIAN BORDER OF THE INTERTRADING ZONE

The Acquisition is only for the First Phase Land and the contractual rights to acquire the Second Phase Land and the area on the Russian border of the Intertrading Zone is not part of the Acquisition.

On 16 June 2004, Suifenhe Shimao also entered into a co-operative agreement with the Russian Party, which is a company incorporated in the Russian Federation and is not a connected person (as defined in the Listing Rules) of the Company, for the purpose of laying down the scope and principles of developing across the national boundary between the Municipality of Pogranichny in Russian Federation and the Municipality of Suifenhe

LETTER FROM THE BOARD

in the PRC. To the best knowledge of the Directors, the Russian Party is a private company owned by 《羅斯代克－遠東運輸》 Open-end Company Limited and 《達里斯達文》 Closed-end Stock Company Limited (whose English and Chinese names are for identification purpose only).

As stated in recitals of the Co-operative Agreement, Suifenhe Shimao and the Russian Party have entered into agreements with the PRC government and Russian government respectively for the acquisition of the respective right of the land for exclusive development in the Intertrading Zone. Pursuant to the terms of the Co-operative Agreement, Suifenhe Shimao shall be responsible for carrying out property design and development for a site area of 153 hectares (equivalent to 1,530,000 sq.m.) of land on the Chinese border of the Intertrading Zone while the Russian Party will contribute at its costs for 300 hectares (equivalent to 3,000,000 sq.m.) of land on the Russian border of the Intertrading Zone, representing around 66% of the total site area of the Intertrading Zone. It is expected that all the construction and development costs of the properties in the Russian border of the Intertrading Zone will be contributed by Suifenhe Shimao.

Under the Co-operative Agreement, Suifenhe Shimao and the Russian Party will be entitled to (i) 90% and 10% interest in Shimao International Commercial and Exhibition Centre (Phase I) on the Chinese border respectively; and (ii) 80% and 20% interest in the multi-function complex and the casino hotel on the Russian border respectively and; (iii) 90% and 10% interest in the medical centre and the financial centre on the Russian border respectively. The entitlement of the Russian Party to these interests will be subject to further negotiations and agreements with Suifenhe Shimao. The development plan as stipulated in the Co-operative Agreement has yet to be concluded and will be subject to further negotiation and entry of agreements with the Russian Party. It is the intention of the Directors that Suifenhe Shimao and the Russian Party will establish investment holding companies under the Russian laws to hold the property interests and to engage in the operation of the casino hotel on the Russian border of the Intertrading Zone. Since the investment in the joint venture investment holding company in Russian Federation constitutes overseas investment, Suifenhe Shimao as a company established in the PRC will be required under the laws of the PRC to obtain approvals from the State Administration of Foreign Exchange, Ministry of Commerce of the PRC and National Development and Reform Commission of the PRC for such overseas investment in the joint venture investment holding company.

The Directors noted that the media has recently reported a major crackdown by the Beijing government on gambling and a number of casinos along the borders of the PRC with Russian and Burma have closed. The Directors so far have no information about the details stated in the relevant press article and accordingly could not confirm its accuracy. In addition, Suifenhe Shimao has enquired the relevant authority of Municipality of Suifenhe in connection with the establishment of the Intertrading Zone regarding the reported crackdown and the relevant authority did not indicate that there will be any impact on the Suifenhe Shimao Development Project and no notice has been received from the relevant authority as to whether the reported crackdown has any impact on the Suifenhe Shimao Development Project. However, the Directors are of the view that the Suifenhe Shimao Development Project is a large scale property development project planned to

LETTER FROM THE BOARD

facilitate a wide range of functions including, inter alia, international trade, retail and wholesale businesses, exhibitions, bonded warehouses, logistics, resorts, cultural and entertainment facilities. Accordingly, casino hotel operation is not the primary focus of the project development. The Board intends that if Suifenhe Shimao is unable to obtain the necessary approval for its overseas investments in the Russian joint venture company which is to be established for engaging in casino hotel operation, the Russian joint venture company will not operate any casino in businesses comprising the hotel to be constructed on the Russian border.

Given that the establishment of the Russian joint venture company is in a preliminary stage, no approval has been obtained from the relevant governmental authority of Russian Federation. Suifenhe Shimao has yet to discuss and conclude the details of the joint venture with the Russian Party. Necessary approvals as required by the relevant governmental authority of Russian Federation will be obtained for the establishment of the Russian joint venture company or any other project companies in Russian Federation. As no terms have been concluded and no agreement has been reached at this stage, the establishment of the Russian joint venture company or any other project companies for the purpose of joint project development in the Intertrading Zone as contemplated in the Co-operative Agreement may or may not materialise. Further announcement(s) will be made if necessary in compliance with the Listing Rules in the event that the Acquisition is completed and any definitive agreement is entered into between Suifenhe Shimao and the Russian Party for the purpose of any joint project development in the Intertrading Zone.

RISK FACTORS

Risk associated with the second phase of development in the Chinese border of the Intertrading Zone

In respect of the second phase of development in the Chinese border of the Intertrading Zone, Suifenhe Shimao only holds the contractual rights to acquire the Second Phase Land. Further negotiations with the relevant governmental authority of the Municipality of Suifenhe are required to conclude the amount of land premium payable for the acquisition of the land use rights of the Second Phase Land. In the event that the land premium for the land use rights of the Second Phase Land cannot be agreed between Suifenhe Shimao and the governmental authority of the Municipality of Suifenhe, the acquisition of the Second Phase Land may not materialize and accordingly, the development plan of the second phase of development in the Chinese border of the Intertrading Zone will also not materialize.

Risk associated with property development in the Intertrading Zone

The Intertrading Zone is a project with focus on property development (including hotel operations). Property development usually requires substantial capital outlay during the construction period and it may take many months or possibly years before positive cashflows can be generated by pre-sales or sales of the completed property developments. The time and costs incurred in completing property development projects can be increased as a result of various factors and may lead to delays in completion of the property

LETTER FROM THE BOARD

development projects and result in costs exceeding those originally budgeted. There is no assurance that the property development projects undertaken by Suifenhe Shimao will be completed within budget to maintain a profit margin. In the event that Suifenhe Shimao cannot complete the property development projects within the Intertrading Zone within budget, the financial conditions and profitability of Suifenhe Shimao may be adversely affected.

Risk associated with the uncertainty of pre-sale or sales of property units in the first phase of development in the Chinese border of the Intertrading Zone

It is expected that the construction costs and the professional fees of the first phase of development in the Chinese border of the Intertrading Zone will be partly financed by the proceeds from pre-sale or sales of property units. In the event that the proceeds generated by pre-sales or sales of property units are not enough to finance construction costs and the professional fees of the first phase of development in the Chinese border of the Intertrading Zone, there is a possibility that the development plan will be delayed or Suifenhe Shimao needs to obtain further third party financing and thus the prospects, the financial conditions and profitability of Suifenhe Shimao may be adversely affected.

Risk associated with development in the Intertrading Zone which is a less developed area

The Intertrading Zone, located across the national border between the Municipality of Suifenhe in the PRC and the Municipality of Pogranichny in Russian Federation, is an area newly planned by the Chinese and the Russian governments in 1998 to develop as a Sino-Russian cross border trading zone. The Intertrading Zone is still undergoing the construction of basic infrastructures and has not yet become a well developed region in terms of economic activities. Further, although the Chinese and the Russian governments agreed to simplify the customs formalities for entry into the trading zones such as exemption of entry visa, it is still uncertain as to the level of the tourists traffic, trading activities and prospects of the Intertrading Zone. In the event that there are substantial changes in the policy in relation to the development in the Intertrading Zone by the Chinese or the Russian governments, there is no assurance that level of economic activities and prospectus of the Intertrading Zone and the financial conditions and profitability of Suifenhe Shimao will not be adversely affected.

Risk associated with property development plan in Russian border of the Intertrading Zone

Apart from the Co-operative Agreement, Suifenhe Shimao has not acquired any land and/or assets in Russian Border of the Intertrading Zone and accordingly, does not have any land use right of the area on the Russian border of the Intertrading Zone. The properties within the Russian border of the Intertrading Zone are intended to be developed into a multi-function complex, a medical centre, a Russian shopping arcade, a financial centre and a five-star casino hotel. Such tentative development plan may be altered subject to the then market conditions and results of further negotiations and agreement between Suifenhe Shimao and the Russian Party. In the event that Suifenhe Shimao and the Russian Party do not reach agreement to such intended development plan, there is a possibility that the development period will be delayed and thus the profitability of Suifenhe Shimao

LETTER FROM THE BOARD

may be adversely affected. In the event that the joint venture companies to be established by Suifenhe Shimao and the Russian Party cannot obtain the necessary approvals as required by the relevant governmental authority of Russian Federation for the purpose of joint venture development in the Intertrading Zone, there is a possibility that the development plan on the Russian border of the Intertrading Zone will be delayed or suspended and the prospects of Suifenhe Shimao may be adversely affected. Further, in the event that Suifenhe Shimao and the Russian Party reach an agreement to adopt a development plan different from the intended plan as stated above, there is no assurance that the financial conditions and prospects of Suifenhe Shimao will not be adversely affected.

Risk associated with Suifenhe Shimao to be engaged in casino hotel operation in the Russian border of the Intertrading Zone

The Directors noted that the media has recently reported a major crackdown by the Beijing government on gambling and a number of casinos along the borders of the PRC with Russian and Burma have closed. The Directors so far have no information about the details stated in the relevant press article and accordingly could not confirm its accuracy. In addition, Suifenhe Shimao has enquired the relevant authority of Municipality of Suifenhe in connection with the establishment of the Intertrading Zone regarding the reported crackdown and the relevant authority did not indicate that there will be any impact on the Suifenhe Shimao Development Project and no notice has been received from the relevant authority as to whether the reported crackdown has any impact on the Suifenhe Shimao Development Project. In the event that Suifenhe Shimao is unable to obtain the necessary approval for its overseas investments in the Russian joint venture company which is to be established for engaging in casino hotel operation, the Russian joint venture company will not operate any casino in businesses comprising the hotel to be constructed on the Russian border.

Risk associated with Russia Federation

More than half of the Intertrading Zone lies within the Russian Federation. Accordingly, the level of economic activities and prospects of the Intertrading Zone are subject to a significant degree of influence from the economic, political and legal development of the Russian Federation. In the event that there are substantial changes in the economic, political and legal development of the Russian Federation in the foreseeable future, there is no assurance that level of economic activities and prospects of the Intertrading Zone and the financial conditions and profitability of Suifenhe Shimao will not be adversely affected.

REASONS FOR THE S&P AGREEMENT AND THE ISSUE OF CONVERTIBLE NOTE

The principal activity of the Company is investment holding. The principal subsidiaries of the Company are principally engaged in property investment and development in Hong Kong and the PRC, the provision of management services to the properties it developed and investment holding.

LETTER FROM THE BOARD

The Group currently has two property development projects, Shanghai Shimao Lakeside Garden (“Lakeside Garden”) and the two detached houses developed on the site of The Genesis. Lakeside Garden is expected to be completed in mid-2005 whilst the two houses are currently being offered for sale. As its property development projects come to an end, the Group currently has no property development projects in the PRC in the pipeline and that it does not have a land bank to draw from. The Group has been actively evaluating its business strategy going forward and intends to pursue a business strategy of property development and investment in international markets outside the PRC.

The Intertrading Zone comprises a total site area of 453 hectares (equivalent to 4,530,000 sq.m.), of which 153 hectares (equivalent to 1,530,000 sq.m.) fall within the Chinese border, representing approximately 34% of the total site area of the Intertrading Zone and the remaining 300 hectares (equivalent to 3,000,000 sq.m.) fall within the Russian border, representing approximately 66% of the total site area of the Intertrading Zone. The location of the Suifenhe Shimao Development Project presents the Group with a platform to pursue its international business strategy going forward, as the majority of the site of the project is situated in Russian territory. Although the majority of the site of the project is in Russian territory, it is still in a preliminary stage and short term revenue contribution will still come from Shimao International Commercial and Exhibition Centre (Phase I) and the five-star hotel in the Chinese border of the Intertrading Zone. In addition, as described in the section headed “The Intertrading Zone”, the Group expects to leverage on the location of the Suifenhe Shimao Development Project and the expected significant commercial and economic development of the area as Chinese-Russian trade and tourism continues to flourish in the area.

Further, the plan of the Suifenhe Shimao Development Project may involve warehousing, logistics and leisure and entertainment facilities in addition to the more traditional property development components of residential, office and retail space. As such, the project would also offer the Group an opportunity to develop a variety of properties, compared to the Group’s current two projects which are both residential-only developments.

Given the variety of facilities that the Suifenhe Shimao Development Project is planned to offer and its location in a region designated for the development of cross-border commerce and tourism between Russian Federation and the PRC, 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, as well as providing the Group with a timely platform to pursue its international business strategy going forward.

As such, the Suifenhe Shimao Development Project represents an important step to realising this strategic business focus. The Directors agree that the property market at the Municipality of Suifenhe in the PRC is relatively less mature when compared with the major cities such as Shanghai and Beijing and the location is relatively remote. Accordingly, it is difficult to evaluate potential return on investment as there is a lack of benchmark in the property market. However, taking into account the cross border trading activities at the Municipality of Suifenhe as mentioned under the above section headed “The

LETTER FROM THE BOARD

Intertrading Zone” and the contractual rights granted by the Municipal Government of Suifenhe to acquire the land for exclusive development in the Chinese border of the Intertrading Zone, the Directors are confident on the future prospects of the Intertrading Zone.

The Board also announced on 23 February 2005 that, as the Group’s current property development projects in the PRC reach completion, the Group will pursue a business strategy of property development and investment in international markets (including Hong Kong) outside mainland PRC, and in this regard, the non-competition undertaking (the “Undertaking”) dated 19 February 2005 was entered into between the Company, Mr. Hui and other parties, pursuant to which, inter alia, the parties agree to delineate their respective businesses on the terms and conditions set out therein (the “Proposal”). Details of the Undertaking are set out in the circular of the Company dated 26 February 2005. As detailed in section headed “Reasons for and benefits of the delineation” as contained in the circular of the Company dated 26 February 2005, the Directors’ view on the Undertaking was based on a number of business considerations. The Group has in the past focused its efforts on the PRC as well as the Hong Kong property markets. However, whilst the property market has seen improvement during the past year, the operating environment in the PRC property development industry has become increasingly difficult financially for smaller developers such as the Group due to intense competition for quality sites and macro-economic adjustment measures which have affected the availability of financing. The prevailing operating condition in the PRC has necessitated a change in strategic business focus by the Group. Accordingly, the intensifying competition in the PRC, particularly from larger developers, has driven smaller property developers to look outside of the PRC, in locations where there are fewer macro-economic policy restrictions, with a more flexible regulatory regime towards funding for land cost. As such, the Group has been considering a strategy outside the PRC 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 the PRC.

Pursuant to the Undertaking, the parties agreed that the Suifenhe Shimao Development Project shall not constitute Property Business (as defined in the circular of the Company dated 26 February 2005) in the PRC. Accordingly, the Company will not be in breach of the Undertaking by entering into the S&P Agreement. The Board considers that the terms of the S&P Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

The Company announced on 10 March 2005 that the Board received a letter dated 4 March 2005 from the Listing Committee in relation to the Undertaking as well as the business delineation with SPHL following a hearing of the Listing Committee held on 3 March 2005 (the “Decision”). Given the interest of some of the Directors in the Undertaking, the Listing Committee raised questions about fairness of the Undertaking and the handling of the Proposal which involves conflicts of interests. The Listing Committee took the view that the principles that Stock Exchange applies in considering spin-off applications should apply to the Proposal and, in particular, the principle that the Company should retain a sufficient level of operations and sufficient assets to support its listing status after completion of the Proposal. The Listing Committee also requested that the Company

LETTER FROM THE BOARD

make further disclosure to the Shareholders to ensure that the Shareholders are in a position to consider the Proposal. The Board received a further letter dated 8 March 2005 from the Listing Division requesting further information to demonstrate the fairness of the process undertaken, or proposed to be undertaken, by the Company to approve the Proposal. The Company wrote on 9 March 2005 to request the Listing Committee to provide written reasons for the Decision. Under such circumstance, the special general meeting convened to be held on 14 March 2005 to consider and if appropriate, approve the Proposal was adjourned until further notice.

The Company further announced on 7 April 2005 that the Board received a letter dated 31 March 2005 from the Listing Committee which was in response to the Company's letter dated 9 March 2005 requesting the Listing Committee to provide written reasons for the Decision. Having considered the written reasons for the Decision, the Company submitted a written request for review of the Decision to the Listing (Review) Committee on 7 April 2005. As the Acquisition is not conditional on the approval of the Proposal, the Board considers that there will be no material impact on the Acquisition in case the Decision is upheld.

CHANGE IN BOARD COMPOSITION

The Board has changed the composition of the Board to reflect the strategic business focus of the Group going forward, which includes the appointment of two new executive Directors, namely, Mr. Chan Loo Shya and Mr. Tung Chi Shing with effect from 19 February 2005. Details of the background and experience of Mr. Chan and Mr. Tung are set out below.

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 TunjkuAbdul 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, 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.

LETTER FROM THE BOARD

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned in the annual report of the Company for the year ended 31 December 2004, the results of the Group for the year 2004 remained positive due to the satisfactory sales performance of its property. For the year ended 31st December 2004, the Group recorded a turnover (including share of an associated company) of HK\$604,706,000 (2003: HK\$579,041,000), representing an increase of 4.4% as compared to the previous year; profit attributable to shareholders was HK\$132,639,000 (2003: HK\$144,274,000), representing a decrease of 8.1% as compared to the previous year. In 2004, sales of Lakeside Garden, with most of its units being sold in the year, were the Group's major revenue contributor.

The Group focused on the development of two properties in 2004, namely the large-scale and high-end Lakeside Garden located at Jinyang Shenghuoyuanqu, Jinqiao, Pudong, Shanghai, and the super luxurious "No. 21 Severn Road" project located on the Peak in Hong Kong.

The Group is proactively seeking development opportunities upon the completion of Lakeside Garden, so as to propel income growth. Hong Kong's property market continues to rebound since the resumption of land sales in 2004 especially amidst strong demand for luxury residential property. The "No. 21 Severn Road" project is well-recognized in the market and has successfully established an image as a quality property developer for the Group. This favours the long-term development of the Group in Hong Kong.

During 2004 and early 2005, the Chinese government implemented a series of macro regulatory measures to cool down the overheated industries, including the property market. Macro economic policies targeting the property market aim at two major aspects:

1. Property developers

In 2004, the Chinese government further tightened the credit requirements for property developers which prohibit the cost of land to be financed by bank credit. In addition, for those property developers who secured bank loans, the required ratio of capital fund paid for the property project was raised from 30% to 35%. These measures, to a certain extent, have imposed funding pressure on small to medium sized property developers in terms of fund and development risk.

2. Property buyers

On 2 September 2004, the China Banking Regulatory Commission announced the "Guidelines on Risk Management of Property Lending by Commercial Banks". It stated clearly that commercial banks should place emphasis on assessing the repayment capability of borrowers by keeping the ratio of monthly repayment to monthly income under 50% for each housing loan and the ratio of monthly debt expenditure to monthly income under 55%. Furthermore, the People's Bank of China raised both of the deposit and lending rates in October 2004 and the housing mortgage rate also increased accordingly. In March 2005, the People's Bank of China

LETTER FROM THE BOARD

required commercial banks in specific cities where the property market appeared to be overheated to increase the ratio of mortgage down payment to 30% from 20%. Also, it required the cancellation of the privileges long provided to mortgage loans and the adjustment of overdue interest rate by adding 30% to 50% to the lending rate stated in the loan agreement. Furthermore, starting March 2005, Shanghai Inland Revenue imposed a levy of approximately 5.5% on the difference between the sales price and original price paid for the house occupied for less than one year before being sold. The Shanghai Property Resources Bureau also required the seller to repay fully the loan before transferring the house from April 2005 onwards. The measures mentioned above not only increased the capital cost of the mortgagor but also regulated the demand for property.

In conclusion, small to medium sized property developers will face difficult business conditions in the PRC during 2005. The high demand for capital may indirectly affect the returns from the project. Given the Chinese government continues to strengthen its regulations on the property market, the Group will endeavor to look for development opportunities outside the PRC for the benefits of its shareholders and for the long-term development of the Company, unless favourable conditions arise in the PRC's market.

The Acquisition is only for the First Phase Land and the contractual rights to acquire the Second Phase Land and the area of the Russian border of the Intertrading Zone is not part of the Acquisition. Suifenhe Shimao and the Russian Party have entered into the Co-operative Agreement which is a framework agreement for the purpose of laying down the scope and principles of developing across the national boundary between the Municipality of Pogradichy in Russian Federation and the Municipality of Suifenhe in the PRC. Notwithstanding that the short term revenue contribution will still come from Shimao International Commercial and Exhibition Centre (Phase I) and the five-star hotel in the Chinese border of the Intertrading Zone, the majority of the site of the Shimao Shimao Development Project is in Russian territory. As such, the Suifenhe Shimao Development Project represents an important step to realizing the strategic business focus.

In addition, the Board announced on 23 February 2005 that the Group will pursue a business strategy of property development and investment in international markets (including Hong Kong) outside the PRC. Details of the proposed business delineation are set out in the circular of the Company dated 26 February 2005. Further development of the proposed business delineation is set out in the section headed "Reasons for the S&P Agreement and the issue of Convertible Note".

LETTER FROM THE BOARD

FINANCIAL EFFECTS ON THE GROUP

Upon Completion, Value Ahead will be a wholly owned subsidiary of the Company. Accordingly, the financial results of the Value Ahead Group will be consolidated into those of the Group.

It was stated in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular that a negative goodwill in the amount of approximately HK\$65,459,000 would be recorded if the Acquisition had taken place on 31 December 2004. However, it was also stated in the same statement that the calculation of deferred tax liabilities has not taken into account the effect of the potential LAT attributable to the Enlarged Group upon the realization of the property interests which may otherwise amount to approximately HK\$137,201,000, net of income tax saving. In case that the calculation of deferred tax liabilities has taken into account the potential LAT of approximately HK\$137,201,000, it is expected that a goodwill will be recorded resulting from the Acquisition upon Completion which will be tested for impairment at each balance sheet date.

The final amount of negative goodwill, which may be different to the one presented, or goodwill (as appropriate, in case that the sum of the total purchase consideration and the related acquisition costs is in excess of the Enlarged Group's share of estimated fair value of the underlying net assets of Value Ahead Group resulting from the Acquisition), to be recorded by the Group on Completion will be determined under Hong Kong Financial Reporting Standard 3 – Business Combination, which has become effective from 1 January 2005. It will basically be subject to the fair value of the Convertible Note and Promissory Note issued by the Company and the Group's interest in the fair value of the identifiable assets and liabilities, including contingent liabilities (if any) of the Value Ahead Group at the date of Completion, after consideration of the new Hong Kong Financial Reporting Standards effective from 1 January 2005.

Under Hong Kong Financial Reporting Standard 3, goodwill resulting from the Acquisition is tested for impairment at each balance sheet date, whereas negative goodwill resulting from the Acquisition is credited to the profit and loss account immediately at the date of Completion.

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular, the audited total assets of the Group as at 31 December 2004 were approximately HK\$1,083,648,000 and the unaudited pro forma total assets of the Enlarged Group would amount to approximately HK\$1,842,000,000. The audited total liabilities of the Group as at 31 December 2004 were approximately HK\$394,187,000 and the unaudited pro forma total liabilities of the Enlarged Group would amount to approximately HK\$1,152,539,000.

Based on the audited total interest bearing borrowing and shareholders' funds of the Group as at 31 December 2004, gearing of the Group as at 31 December 2004 was calculated at approximately 0.34. On the basis of the unaudited pro forma total interest bearing borrowing and shareholders' funds of the Enlarged Group as set out in Appendix III to this circular, gearing of the Enlarged Group would be approximately 0.99.

LETTER FROM THE BOARD

TERMINATION OF THE EXISTING SHARE OPTION SCHEME AND THE ADOPTION OF THE NEW SHARE OPTION SCHEME

The Existing Share Option Scheme was adopted by the Company on 24 June 1998. After its adoption, there had been major amendments to Chapter 17 of the Listing Rules which governs the operation of share option scheme which came into effect on 1 September 2001. As a result of these amendments, the Existing Share Option Scheme currently does not comply with the provisions of Chapter 17 of the Listing Rules. The Board therefore proposes to replace the Existing Share Option Scheme by the New Share Option Scheme for compliance with the amended rules at the SGM.

Under the Existing Share Option Scheme, the Company had granted an aggregate of 21,000,000 options, of which 8,450,000 options were exercised and 12,550,000 options were cancelled. As at the Latest Practicable Date, there were no outstanding options under the Existing Share Option Scheme which had been granted but not exercised or lapsed. The Board confirms that prior to the SGM, it will not grant any options under the Existing Share Option Scheme.

The New Share Option Scheme also serves the purpose of enabling the Company to grant options to selected Eligible Participants as incentive or rewards for their contribution to the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to Eligible Participants.

New Share Option Scheme

Under the New Share Option Scheme, the Board will have the right to grant to the Eligible Participants the Options to subscribe for Shares under the New Share Option Scheme, representing up to 10 per cent. of the total number of Shares in issue as at the date of adoption of the New Share Option Scheme unless the Company obtains an approval from the Shareholders to refresh the 10 per cent. limit. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time. Once the New Share Option Scheme is adopted, any alterations to the terms and conditions thereof, which are of a material nature, must be approved by the Shareholders, except where the alterations take effect automatically pursuant to the terms originally provided in the New Share Option Scheme.

There is no general requirement in relation to the minimum period for which an Option must be held or the performance targets which must be achieved before an Option can be exercised under the terms of the New Share Option Scheme. However, the Board will be empowered under the New Share Option Scheme to impose at its discretion such minimum period and/or performance targets at the time of grant of any particular Option as it sees fit. In addition, the Board will be empowered under the New Share Option Scheme to determine the exercise price of a Share in respect of any particular Option granted subject to certain restrictions, details of which are set out in Appendix VI to this circular, so that the selected participants are attracted to subscribe for Shares pursuant to

LETTER FROM THE BOARD

the Options granted by the Company as incentives and rewards for their contribution to the Group and will further contribute towards the profitability and success of the Group.

As at the Latest Practicable Date, the issued share capital of the Company comprised 827,639,886 Shares. Assuming that there is no change in the issued share capital between the period from the Latest Practicable Date and the date of adoption of the New Share Option Scheme, the maximum number of Shares issuable pursuant to the New Share Option Scheme will be 82,763,988 Shares unless the Company obtains a refresh approval from the Shareholders.

Conditions Precedent of the New Share Option Scheme

The New Share Option Scheme will take effect upon satisfaction of the following conditions:

- (a) the passing of an ordinary resolution to terminate the Existing Share Option Scheme and to approve and adopt the New Share Option Scheme by the Shareholders at a general meeting of the Company; and
- (b) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, such number of Shares to be issued by the Company pursuant to the exercise of Options which may be granted under the New Share Option Scheme, representing ten (10) per cent of the Shares in issue as at the date of adoption of the New Share Option Scheme.

An application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares representing 10% of the issued share capital of the Company as at the date of adoption of the New Share Option Scheme which may fall to be issued pursuant to the exercise of the Options granted under the New Share Option Scheme.

Values of all Options that can be granted under the New Share Option Scheme

Since the New Share Option Scheme is yet to be approved by the Shareholders, the Board has not yet determined the time frame on the granting of the Options under the New Share Option Scheme and the number of Shares for which any grantee may subscribe upon exercise of an Option. Accordingly, the Board considers that it is premature and inappropriate to state the value of the Option for the time being in this circular. The Board also considers that it is inappropriate to value all the Options that may be granted under the New Share Option Scheme as if they had been granted at the Latest Practicable Date. Such value would not be meaningful and could also be misleading to the Shareholders as it would necessarily be based on many speculative assumptions including the exercise price, the exercise period and other variables, all of which would be difficult to speculate on.

The results of the ordinary resolution to be proposed at the SGM in relation to the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme will not affect Completion.

LETTER FROM THE BOARD

A summary of the principal terms of the New Share Option Scheme is set out in Appendix VI to this circular. This serves as a summary of the principal terms of the New Share Option Scheme but does not constitute its full terms. The complete terms of the New Share Option Scheme are available for inspection at the offices of the Company's legal adviser in Hong Kong, Sit, Fung, Kwong & Shum at 18th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong from the date of this circular up to and including the date of the SGM and at the SGM itself.

Following the SGM, the Company will publish an announcement on the outcome of the SGM for the adoption of the New Share Option Scheme on the business day following the SGM in accordance with Rule 17.02(1)(a) of the Listing Rules.

RECOMMENDATIONS

The Board considers that the Acquisition and the terms of the S&P Agreement are fair and reasonable and in the interests of the Shareholders as a whole. Your attention is drawn to the letters from the Independent Board Committee and Platinum which set out their recommendations in respect of the S&P Agreement and the principal factors considered by them in arriving at their recommendations.

The Board considers the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme is in the best interests of the Company and recommend all Shareholders to vote in favour of the resolution in relation to the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme to be proposed at the SGM.

THE SGM

A notice convening the SGM at which ordinary resolutions will be proposed to consider, and if thought fit, to approve the S&P Agreement and the transactions contemplated thereby and the termination of the Existing Share Option Scheme and the adoption of the New Share Option Scheme is set out on pages 172 to 174 of this circular. The S&P Agreement and the transactions contemplated thereby (as referred to in resolution numbered 1 in the notice of the SGM) is subject to the Independent Shareholders' approval by way of a poll. The Controlling Shareholder and its associates, being the major Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting at the SGM in respect of the resolution to approve the S&P Agreement and transactions contemplated thereunder. Further announcement on the results of the SGM will be made by the Company.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch registrar and transfer office in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable and in any event by not later than 48 hours before the time appointed for holding such meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM should you so wish.

LETTER FROM THE BOARD

PROCEDURE BY WHICH A POLL MAY BE DEMANDED

In accordance with Bye-Law 66 of the Bye-Laws, the following persons may demand that the vote in respect of any resolution put to the general meeting of the Company be taken on a poll:

- (a) the chairman of the meeting; or
- (b) 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
- (c) any 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
- (d) any 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 on 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.

A poll may be so demanded before or on the declaration of the result of the show of hands.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

By Order of the Board
Shimao China Holdings Limited
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)

25 May 2005

To the Independent Shareholders

Dear Sir and Madam,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to the circular dated 25 May 2005 issued by the Company, of which this letter forms part ("Circular"). Terms used in this letter shall have the same meanings defined elsewhere in the Circular unless the context requires otherwise.

The Independent Board Committee comprising the independent non-executive Directors, namely Messrs. Lee Chack Fan, Liu Hing Hung and Zhu Wenhui has been appointed to advise you in respect of the Acquisition, details of which are set out in the Circular. Platinum has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Acquisition.

In forming our opinion on the Acquisition, we have discussed with Savills (Hong Kong) Limited ("Savills") and Platinum in relation to the valuation of: (i) the Shimao International Commercial and Exhibition Centre (Phase I); (ii) the five-star hotel; and (iii) the remaining portion of the First Phase Land. We noted that the residual method was the primary method adopted for valuing the Shimao International Commercial and Exhibition Centre (Phase I) (the "Property"). In our discussion, we have:

- (a) critically discussed and assessed the assumptions made by Savills as disclosed in their valuation report of the Property as set out in Appendix IV to the Circular and the material effect that any variation of those assumptions may have on the valuation figure;
- (b) critically discussed the effect of any material conditions affecting the status of the legal titles to the Property as disclosed in the legal opinion from the PRC legal advisers obtained in respect of the Property;
- (c) in particular, in relation to the Property, discussed: (i) its valuation which is based on the expected sale value of this completed development; and (ii) the exact stage at which its development has reached; and

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

- (d) discussed the known relevant local taxes which may be charged in respect of the Property and their effect, if any, on the calculation of the expected profit of the Property and their consequent effect on the valuation figure.

Based on our discussion, we are of the view that the residual method being adopted for the valuation of the Property is acceptable.

We wish to draw your attention to the Letter from the Board as set out on pages 7 to 37 of this Circular, and the letter from Platinum which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition as set out on pages 40 to 76 of this Circular. Your attention is also drawn to the additional information contained in the appendices to this Circular.

RECOMMENDATION

Having taking into account the advice of Platinum and the principal factors and reasons considered by Platinum, we consider that the terms of the S&P Agreement are fair and reasonable so far as the Independent Shareholders as a whole are concerned and the Acquisition is in the interest of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution in relation to the S&P Agreement to be proposed at the SGM.

Yours faithfully,

Independent Board Committee

Lee Chack Fan Liu Hing Hung Zhu Wenhui
Independent Non-executive Directors

LETTER FROM PLATINUM

The following is the text of the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into 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

25 May 2005

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

ACQUISITION OF THE SUIFENHE SHIMAO DEVELOPMENT PROJECT MAJOR AND 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 terms of the S&P Agreement which form part of the Acquisition, details of which are set out in the letter from the Board as set out in 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 Acquisition is entered into in the ordinary and usual course of business of the Group, on normal commercial terms, 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 S&P Agreement; (ii) the interim financial report of the Group for the six months ended 30 June 2004; (iii) the annual report and accounts of the Group for the year ended 31 December 2003 and 2004; (iv) the Co-operative Agreement; (v) the accountants' report on Value Ahead; (vi) financial information of the Group; (vii) financial information of the Enlarged Group; (viii) legal opinion from the Group's PRC legal advisor; (ix) the valuation report of the properties of Suifenhe Shimao by Savills (Hong Kong) Limited and (x) the valuation report of the Convertible Note by Sallmanns (Far East) Limited. We have also discussed with the management of the Company about their plans and prospects of the Suifenhe Shimao Development Project.

LETTER FROM PLATINUM

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 no material facts have been omitted from the information supplied to us. The Directors have confirmed that they take full responsibility for the contents of the Circular.

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 information supplied to us, nor have we conducted any independent in-depth investigation into 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 Acquisition.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

A. Reasons for and benefits of the Acquisition:

1. Background of the Acquisition

On 23 February 2005, the Board announced that, on 19 February 2005, the Company has entered into the S&P Agreement to acquire the Sale Shares and the Sale Loan of Value Ahead from the Vendor, subject to, amongst other things, Independent Shareholders' approval.

The primary asset of Value Ahead is its 100% interest in the registered capital of Suifenhe Shiamo which currently holds:

- (i) the First Phase Land, which comprises two parcels of land located in the Municipality of Suifenhe, the PRC with a total site area of approximately 722,824.5 sq.m., on which a commercial and trade centre and a five-star hotel are under construction, for the first phase of development within the Chinese border of the Intertrading Zone; and
- (ii) the contractual right to acquire the Second Phase Land, which comprises the remaining portion of land located in the Municipality of Suifenhe, the PRC with site area of approximately 807,175 sq.m, for the second phase of development within the Chinese border of the Intertrading Zone.

As such, the Acquisition is only for the First Phase Land and the contractual rights to acquire the Second Phase Land. The area within the Russian border of the Intertrading Zone is not part of the Acquisition.

LETTER FROM PLATINUM

In addition, Suifenhe Shimaο also entered into a co-operative agreement with the Russian Party for the purpose of laying down the scope and principles of developing across the national boundary between the Municipality of Pogranichy in Russian Federation and the Municipality of Suifenhe in the PRC.

The First Phase Land is designated to be developed as part of the Suifenhe Shimaο Development Project which is located in a region designated for the development of cross-border commerce and tourism between the PRC and Russian Federation. The Suifenhe Shimaο Development Project is planned to include a mixture of residential, commercial and retail space, and warehousing and logistics facilities. Pursuant to the S&P Agreement, the Company agreed to acquire the entire issued share capital of Value Ahead, which owns 100% of Suifenhe Shimaο, and the outstanding loan due from Value Ahead to the Vendor as at the Completion Date, for a total consideration of HK\$496,220,000. The Consideration represents a discount of approximately 2.9% to the sum of the audited consolidated net deficit of Value Ahead Group as at 31 December 2004 of approximately HK\$3,620,000, the valuation surplus after deferred taxation effect of the property interests of Suifenhe Shimaο of approximately HK\$319,846,000 (based on the valuation of the property interests of Suifenhe Shimaο as at 30 April 2005) and the outstanding loan due from Value Ahead to the Vendor as at 31 December 2004 of HK\$194,611,000. The Consideration shall be satisfied by way of issuance of the Convertible Note and the Promissory Note on the Completion Date in the following manners:

- (i) as to HK\$250,000,000, by way of issuance of the Convertible Note on the Completion Date; and
- (ii) as to the balance of HK\$246,220,000, by way of issuance of the Promissory Note on the Completion Date.

The Acquisition constitutes a major transaction for the Company under the Listing Rules. As the Vendor is wholly owned by Mr. Hui, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules. Therefore, the Acquisition is subject to the approval of the Independent Shareholders at the SGM. The Controlling Shareholder and its associates, being the major Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting at the SGM in respect of the resolution to approve the S&P Agreement and transactions contemplated thereunder.

2. *Business of the Group*

The Company is listed on the Stock Exchange and the Group's current principal business is property investment and development. As stated in the letter from the Board, the Group currently has two property development projects, Shanghai Shimaο Lakeside Garden ("Lakeside Garden") and the two detached houses developed on the site of the "No. 21 Severn Road" project. Lakeside Garden is expected to be completed in mid-2005 whilst the two houses are currently being offered for sale. As its property development projects come to an end, the Group currently has no property development projects in the PRC in the pipeline and it does not have a land bank to draw from. The Group has been

LETTER FROM PLATINUM

actively evaluating its business strategy going forward and intends to pursue a business strategy of property development and investment in international markets outside the PRC. As such, the Suifenhe Shimao Development Project represents an important step to realising this strategic business focus. As stated in its 2003 and 2004 annual report and accounts, turnover of the Group generated from property development and property investment is illustrated below:

		For the year ended 31 December			
		2004		2003	
		HK\$'000	Percentage of total turnover of the Group	HK\$'000	Percentage of total turnover of the Group
(1)	Property development	598,094	98.9%	570,707	98.6%
(2)	Property investment	6,612	1.1%	8,334	1.4%
	Total turnover	604,706	100.0%	579,041	100.0%

As illustrated above, turnover of the Group is substantially generated from property development and property investment. As the Suifenhe Shimao Development Project is a property development project, therefore, we are of the view that the Acquisition is in line with the ordinary and usual course of business of the Company.

3. *Descriptions of Value Ahead and the Suifenhe Shimao Development Project*

(i) *Background of Value Ahead*

In 1998, the Chinese and the Russian governments reached an agreement to develop Sino-Russian cross border trading zones and simplify the customs formalities for entry into the trading zones such as exemption of entry visa. The development includes, inter alia, a trading economic zone known as the Pogranichny-Suifenhe Intertrading Economic Zone, which is located across the national border between the Municipality of Suifenhe in the PRC and the Municipality of Pogranichny in Russian Federation. The Municipality of Suifenhe is a city situated in the south-eastern part of the Heilongjiang Province of the PRC and adjoining the national border between the PRC and Russian Federation. The Intertrading Zone comprises a total site area of approximately 4,530,000 sq.m., of which approximately 1,530,000 sq.m. fall within the Chinese border and the remaining approximately 3,000,000 sq.m. fall within the Russian border.

Value Ahead was incorporated in the BVI on 5 July 2001 and is wholly owned by the Vendor. The primary asset of Value Ahead is its 100% interest in Suifenhe Shimao. Suifenhe Shimao, which was established on 13 April 2004 for a period of 40 years, is the project company of the Suifenhe Shimao Development Project.

LETTER FROM PLATINUM

(ii) *The First Phase Land*

As stated in the letter from the Board, Suifenhe Shimao shall have the contractual right to acquire approximately 1,530,000 sq.m. of land of the Intertrading Zone within the Chinese border for exclusive development. As advised by the management of the Company and based on the agreement dated 19 January 2004 entered into between the Municipal Government of Suifenhe and Shimao Jianshe, a company beneficially and wholly owned by Mr. Hui, there is no specific time limit for this contractual right to acquire this approximately 1,530,000 sq.m. of land. For the purpose of the first phase of development of the Intertrading Zone, Suifenhe Shimao has acquired the land use right of the First Phase Land, which includes a commercial and trade centre known as 世茂國際商展中心 (the Shimao International Commercial and Exhibition Centre) (Phase I) (the "Exhibition Centre") and a five-star hotel (the "Hotel"), which occupy site areas of approximately 38,010 sq.m. and 33,924 sq.m. respectively. The total original acquisition cost of the First Phase Land was approximately RMB192,980,000 (equivalent to approximately HK\$182,057,000), which includes: (i) the cost of contractual right to acquire the First Phase Land of approximately RMB59,054,000 (equivalent to approximately HK\$55,712,000); and (ii) the acquisition cost of the land use rights of the First Phase Land of approximately RMB133,926,000 (equivalent to approximately HK\$126,345,000). As stated in the letter from the Board, construction of the Exhibition Centre and the Hotel commenced in August 2004 and is currently in progress. They are scheduled to be completed in May 2006 and December 2006 respectively.

As stated in the letter from the Board, the land use right of the First Phase Land have already been granted by the Suifenhe Land Bureau. Permission is also required to be obtained from the Heilongjiang Land Bureau for the grant of the First Phase Land to Suifenhe Shimao. The Board intends that the Company shall not proceed with Completion if this permission cannot be obtained. According to the confirmation from the Suifenhe Land Bureau, the above land grant is authorized by the Heilongjiang Land Bureau and the Suifenhe Land Bureau has already submitted a formal application for the above land grant to the Heilongjiang Land Bureau for approval. As stated in the letter from the Board, there should be no legal impediment in obtaining such permission. However, the expected date of approval is uncertain. In the event that permission from the Heilongjiang Land Bureau cannot be obtained, according to the PRC legal opinion, the Suifenhe Land Bureau may be deemed ultra vires in granting the land use rights of the First Phase Land to Suifenhe Shimao and the abovementioned land grant may be considered invalid. In case the abovementioned land grant is considered to be valid, the Heilongjiang Land Bureau may also require Suifenhe Land Bureau to revise the land premium of the First Phase Land. Prior to the correction of the above situation or the settlement of any revised land premium, the purchases of the property units of the Exhibition Centre may not be able to register their ownership to the commodity units.

As stated in the letter from the Board, if Suifenhe Shimao is unable to obtain the permission regarding the validity of the grant of the First Phase Land from the Heilongjiang Land Bureau on or before 30 June 2005 or such other date as shall be agreed between the Vendor and the Company, the Board intends that such condition will not be waived and the S&P Agreement shall be terminated. If such permission from the Heilongjiang Land

LETTER FROM PLATINUM

Bureau can be obtained on condition that additional land premium for the First Phase Land should be paid by Suifenhe Shimao, the Board intends that the Company shall not proceed with Completion unless the Vendor will pay for the additional land premium as required by the Heilongjiang Land Bureau. In the event that the Board changes its intention to waive such condition, the Company will further seek approval from the Independent Shareholders for such waiver. Before Completion, the Group will not contribute any funding for the Suifenhe Shimao Development Project and therefore will not suffer any loss, even if the permission for the grant of the First Phase Land from the Heilongjiang Land Bureau is not obtained.

As stated in the letter from the Board and based on our discussion with the management of the Company, for the Exhibition Centre and the Hotel, the Construction Works Completion Inspection Reports, which are required for the commencement of their operation, have yet to be obtained as the construction work is still in process.

(iii) The Second Phase Land

As stated in the letter from the Board, for the second phase of the development of the Suifenhe Shimao Development Project with site area of approximately 807,175 sq.m, Suifenhe Shimao has acquired the contractual rights to acquire the Second Phase Land, the original acquisition cost of which was approximately RMB65,946,000 (equivalent to approximately HK\$62,213,000). However, the land use rights of the Second Phase Land has not yet been acquired.

As mentioned above, Suifenhe Shimao only has the rights to acquire the Second Phase Land for the second phase of development within the Chinese border of the Intertrading Zone. The Company has to acquire the Second Phase Land in the future and pay the land premium, which has yet to be determined. After completion of the construction of the Exhibition Centre and the Hotel, the Group will proceed to negotiate with the relevant governmental authority of the Municipality of Suifenhe to conclude the amount of land premium payable for the acquisition of the land use rights of the Second Phase Land and make payment for the required land premium for the acquisition of the Second Phase Land. As the development of the Second Phase Land is tentative, the land premium for the acquisition of the Second Phase Land has yet to be estimated at this stage. Subject to the terms and conditions to be negotiated, the acquisition of the Second Phase Land may or may not materialize. Based on our discussion with the management of the Company, the acquisition of the contractual rights to acquire the Second Phase Land was to secure the exclusive development rights of Second Phase Land. The Acquisition which includes this contractual rights is a commercial term negotiated and agreed between the Vendor and the Company. The S&P Agreement involves the acquisition of the entire share capital of Value Ahead and thereby, Suifenhe Shimao, by the Company. Therefore, we are of the view that it is not reasonable and commercial to assume that the Company would only acquire part of the assets of Suifenhe Shimao as this exclusive development right of the Second Phase Land is part and parcel of the whole Suifenhe Shimao Development Project.

LETTER FROM PLATINUM

As stated in the letter from the Board, given that the development of the Second Phase Land is tentative and Suifenhe Shimaο has not acquired the land use right of the Second Phase Land, the tentative development plan may or may not proceed.

(iv) Co-operative arrangement between Suifenhe Shimaο and the Russian Party

As stated in the letter from the Board, the Acquisition is only for the First Phase Land and the contractual rights to acquire the Second Phase Land and the area within the Russian border of the Intertrading Zone is not part of the Acquisition.

On 16 June 2004, Suifenhe Shimaο also entered into a co-operative agreement with the Russian Party, which is a company incorporated in the Russian Federation and is not a connected person (as defined in the Listing Rules) of the Company, for the purpose of laying down the scope and principles of developing across the national boundary between the Municipality of Pοgranichny in Russian Federation and the Municipality of Suifenhe in the PRC. To the best knowledge of the Directors, the Russian Party is a private company owned by 《羅斯代克－遠東運輸》 Open-end Company Limited and 《達里斯達文》 Closed-end Stock Company Limited (whose English and Chinese names are for identification purpose only).

As stated in the recitals of the Co-operative Agreement, Suifenhe Shimaο and the Russian Party have entered into agreements with the PRC government and Russian government respectively for the acquisition of the respective right of the land for exclusive development in the Intertrading Zone. Pursuant to the terms of the Co-operative Agreement, Suifenhe Shimaο shall be responsible for carrying out property design and development for a site area of approximately 1,530,000 sq.m. of land within the Chinese border of the Intertrading Zone while the Russian Party will contribute at its costs for approximately 3,000,000 sq.m. of land within the Russian border of the Intertrading Zone. It is expected that all the construction and development costs of the properties within the Russian border of the Intertrading Zone will be contributed by Suifenhe Shimaο.

Within the Russian border of the Intertrading Zone, the site area covers approximately 3,000,000 sq.m. and represents around 66% of the total site area of the Intertrading Zone. Under the Co-operative Agreement, Suifenhe Shimaο and the Russian Party will be entitled to: (i) 90% and 10% interest in the Exhibition Centre within the Chinese border respectively; (ii) 80% and 20% interest in the multi-function complex and the casino hotel within the Russian border respectively; and (iii) 90% and 10% interest in the medical centre and the financial centre within the Russian border respectively. The entitlement of the Russian Party to these interests will be subject to further negotiations and agreements with Suifenhe Shimaο. The development plan as stipulated in the Co-operative Agreement has yet to be concluded and will be subject to further negotiation and entry of agreements with the Russian Party. It is the intention of the Directors that Suifenhe Shimaο and the Russian Party will establish investment holding companies under Russian laws to hold the property interests and develop a multi-function complex comprising a casino hotel and other entertainment facilities and operating the businesses in the multi-function complex within the Russian border of the Intertrading Zone.

LETTER FROM PLATINUM

Suifenhe Shimao has yet to discuss and conclude the details of the joint venture company with the Russian Party. As no terms have been concluded and no agreement has been reached at this stage, the establishment of the Russian joint venture company or any other project companies for the purpose of joint project development in the Intertrading Zone as contemplated in the Co-operative Agreement may or may not materialise. In addition, given that the establishment of the Russian joint venture company is in a preliminary stage, no approval has been obtained from the relevant governmental authority of Russian Federation. Since the investment in the joint venture investment holding company constitutes overseas investment, Suifenhe Shimao, as a company established in the PRC, will be required under the laws of the PRC to obtain approvals from the State Administration of Foreign Exchange, Ministry of Commerce of the PRC and National Development and Reform Commission of the PRC for such overseas investment in the joint venture investment holding company. Based on our discussions with the management of the Company, the Company has not yet obtained these PRC approvals.

As stated in the letter from the Board, the Directors noted that the media has recently reported a major crackdown by the Beijing government on gambling and a number of casinos along the borders of the PRC with Russian Federation and Burma have closed. The Directors so far have no information about the details stated in the relevant press article and accordingly could not confirm its accuracy. In addition, Suifenhe Shimao has enquired with the relevant authority of the Municipality of Suifenhe in connection with the establishment of the Intertrading Zone regarding this reported crackdown and the relevant authority did not indicate that there will be any impact on the Suifenhe Shimao Development Project and no notice has been received from the relevant authority as to whether this reported crack down has any impact on the Suifenhe Shimao Development Project. However, the Directors are of the view that the Suifenhe Shimao Development Project is a large scale property development project planned to facilitate a wide range of functions including, inter alia, international trade, retail and wholesale businesses, exhibitions, bonded warehouses, logistics, resorts, cultural and entertainment facilities. Accordingly, casino hotel operation is not the primary focus of the project development. The Board intends that if Suifenhe Shimao is unable to obtain the necessary PRC approvals for its overseas investments in the Russian joint venture company which is to be established for engaging in casino hotel operation, the Russian joint venture company will not operate any casino in business comprising the hotel to be constructed within the Russian border of the Intertrading Zone.

For the details of the development plan and the status of the development of the Intertrading Zone, please refer to the letter from the Board.

4. *Reasons for the Acquisition*

(i) *Overview of the commercial and economic development*

(a) *Overview of the commercial and economic development of the PRC and Russian Federation*

According to the website of China INFOBANK Limited, a company specialized in the provision of China business information worldwide, the gross domestic product

LETTER FROM PLATINUM

("GDP") of the PRC recorded a year-on-year growth rate of approximately 7.5%, 8.0% and 9.1% respectively in the three years ended 31 December 2001, 2002 and 2003. Also according to the website of China INFOBANK Limited, in Russian Federation, the economy has also enjoyed healthy growth with a year-on-year GDP growth rate of approximately 5.1%, 4.7% and 7.3% respectively in the corresponding years. The economies of these two countries have not only grown individually, but they also developed a closer tie subsequent to the signing of the Agreement on Good-Neighborly Relationship and Friendship between the PRC and Russian Federation in 2001 and the Joint Declaration of the PRC and Russian Federation in May 2003. The GDP of Russian Federation and the PRC is illustrated in Table 1 below:

Table 1: GDP of Russian Federation and the PRC

Year	GDP Growth rate of	
	Russian Federation	the PRC
2001	5.1%	7.5%
2002	4.7%	8.0%
2003	7.3%	9.1%

Source: website of China INFOBANK Limited

In addition, we have also reviewed other key economic indicators of Russian Federation which are summarized in Table 2 below:

Table 2: Summary of economic indicators of Russian Federation

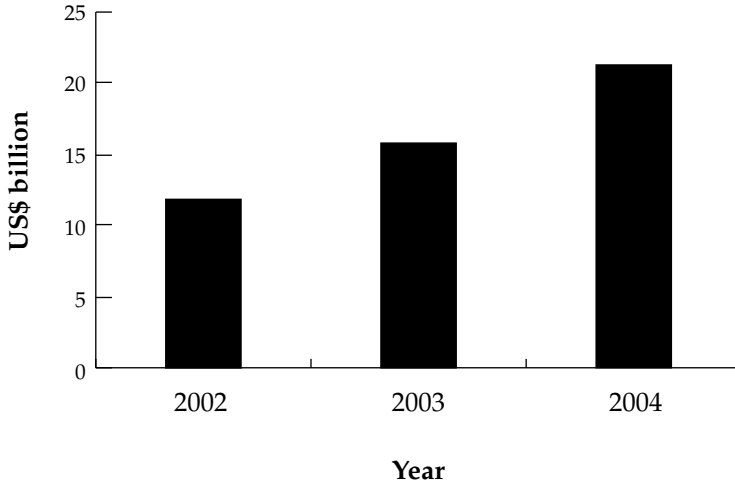
	2002	2003	Year-on-year growth rate
	US\$ billion	US\$ billion	
Total imports/exports	203.2	227.6	12.0%
	US\$ million	US\$ million	
Tourism Receipts	4,167	4,502	8.0%
	Persons ('000)	Persons ('000)	
Visitors	7,943	8,015	0.9%

Source: World Tourism Organisation and World Development Indicators database

Furthermore, in accordance with the statistics of the Ministry of Commerce of the PRC, the aggregate export and import value between the PRC and Russian Federation have increased by 11.8%, 32.1% and 34.7% in the three years ended 31 December 2002, 2003 and 2004, respectively, and the amount reached US\$21 billion

for the year ended 31 December 2004. The aggregate export and import value between the PRC and Russian Federation is illustrated in Chart 1 below:

Chart 1: Export and import between the PRC and Russian Federation

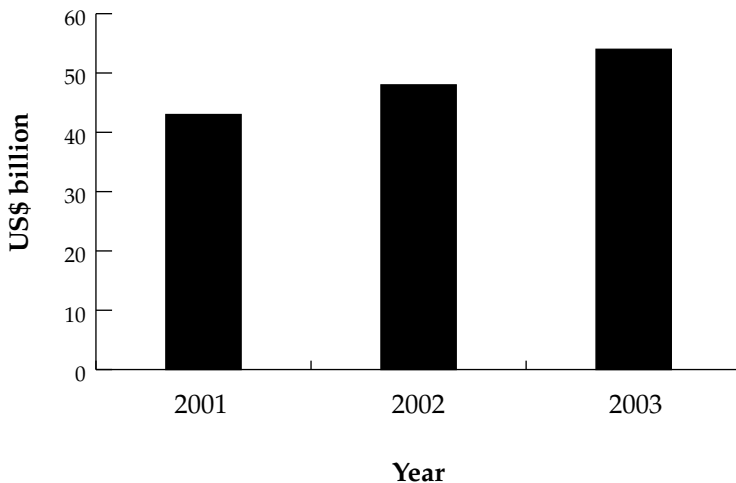


Source: Ministry of Commerce of the PRC

(b) Overview of the commercial and economic development of the Heilongjiang Province and the Municipality of Suifenhe

The stronger ties between the PRC and Russian Federation also brought significant economic impact on the Heilongjiang Province of the PRC and the Municipality of Suifenhe. According to the Bureau of Statistics of the Heilongjiang Province, the GDP growth rates of the Heilongjiang Province reached approximately 9.3%, 10.3% and 10.3% respectively in the three years ended 31 December 2001, 2002 and 2003 respectively, which were above the GDP growth rates of the PRC of approximately 7.5%, 8.0% and 9.1% for each of the corresponding years as mentioned in Table 1 above. The GDP of the Heilongjiang Province, is illustrated in Chart 2 below:

Chart 2: GDP of the Heilongjiang Province

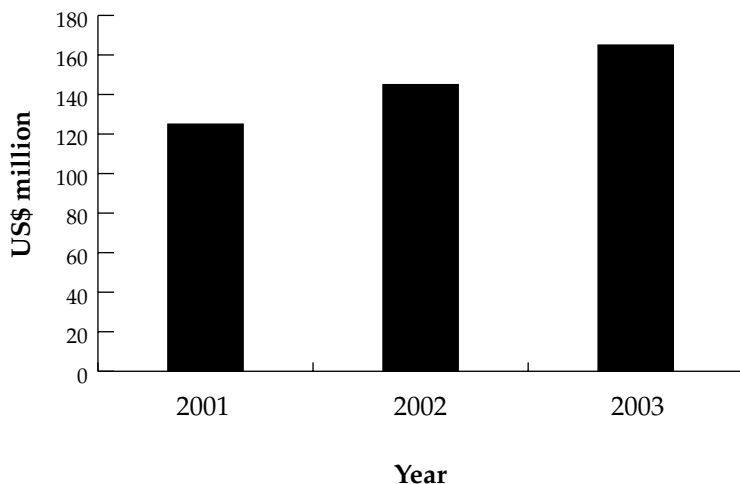


Source: Bureau of Statistics of the Heilongjiang Province, the PRC

LETTER FROM PLATINUM

According to the Municipality of Suifenhe, Suifenhe is one of the major ports for Chinese-Russian trades and its total value of imports/exports have made up one third of the total value of imports/exports of the Heilongjiang Province for six conservative years for 1997 to 2003. According to the Bureau of Statistics of the Municipality of Suifenhe, the growth rates of the GDP of the Municipality of Suifenhe reached approximately 14.2%, 15.8% and 16.2% respectively for the three years ended 31 December 2001, 2002 and 2003. The GDP figures of the Municipality of Suifenhe are illustrated in Chart 3 below:

Chart 3: GDP of the Municipality of Suifenhe



Source: Bureau of Statistics of the Municipality of Suifenhe, the PRC

According to the Bureau of Statistics of the Municipality of Suifenhe, the total imports/exports of the Municipality of Suifenhe set a new record in 2003, topping US\$1.9 billion, which made up one third of the total imports/exports of the Heilongjiang Province. In particular, trades with Russian Federation amounted to approximately US\$1.8 billion in 2003, representing approximately 96.6% of the total imports/exports of the Municipality of Suifenhe. In addition, income deriving from its tourism industry was approximately US\$51.8 million in 2003, representing a year-on-year increase of approximately 25%. In 2003, approximately 345,000 visitors travelled to and from the Municipality of Suifenhe,

LETTER FROM PLATINUM

representing a year-on-year increase of approximately 14%. The economic indicators aforementioned are illustrated in Table 3 below:

Table 3: Summary of the economic indicators of the Municipality of Suifenhe, the PRC

	2002 <i>US\$ million</i>	2003 <i>US\$ million</i>	Year-on-year growth rate
Total imports/exports	15.5	19.1	23%
	<i>US\$ million</i>	<i>US\$ million</i>	
Tourism industry income	41.4	51.8	25%
	<i>Persons ('000)</i>	<i>Persons ('000)</i>	
Visitors	301,000	345,000	15%

Source: Bureau of Statistics of the Municipality of Suifenhe, the PRC

In addition, as stated in the letter from the Board, in 2004, approximately 405,000 visitors travelled to and from the Municipality of Suifenhe.

In light of the positive economic data mentioned above, we concur with the view of the Directors that Chinese-Russian trade and tourism are likely to continue to flourish in the Pogranichny-Suifenhe Intertrading Economic Zone, which is a favorable factor for the future development of the Suifehe Shimao Development Project.

(iii) Diversification into various areas of property development

As stated in the letter from the Board, the plan of the Suifenhe Shimao Development Project may involve warehousing, logistics and leisure and entertainment facilities and the first phase of development includes the Exhibition Center and the Hotel (please refer to the letter from the Board for details of the first phase of development). As advised by the management of the Company, the operations of the facilities will depend on the nature of the facilities, it may be sold, leased out or operated by the Company (or through joint ventures formed between the Company and other professionals). As such, we note that the Acquisition would offer the Group an opportunity to diversify into developments of a variety of properties, compared to the Group's current property projects, which are, as illustrated in Table 4 below, only residential or commercial developments.

LETTER FROM PLATINUM

Table 4: Profile of existing major properties of the Group vs the Suifenhe Shimao Development Project

(i) Existing investment properties of the Group:

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

(ii) Existing development properties of the Group:

Property	Address	Type	Equity interest	Gross floor area (square metres)	Remarks
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
The "No. 21 Severn Road" project	21 Severn Road, Hong Kong	Residential	Long lease	1,080	Two houses on the Peak for sale

LETTER FROM PLATINUM

(iii) The Acquisition – the Suifenhe Shimao Development Project:

Property	Address	Type	Equity interest	Site area	Remarks
Mixture of hotel, commercial and retail space and warehousing and logistics facilities	Suifenhe, the PRC	Commercial	Note 1	Approximately 1,530,000 sq.m. of which 722,824.5 sq.m. is under development and there is a tentative plan for the remaining 807,175 sq.m..	The Suifenhe Shiamo Development Project is located in a region designated for the development of cross-border commerce and tourism between the PRC and Russian Federation.

Note 1: As advised by the management of the Company, other than the 90% interest in the Exhibition Centre in which Suifenhe Shimao will be entitled to, Suifenhe Shimao will be entitled to the entire equity interest in the remaining properties of the Suifenhe Shimao Development Project within the Chinese border of the Intertrading Zone.

Source: Annual report and accounts for the years ended 31 December 2003 and 2004 of the Group and Company data

Therefore, through the Suifenhe Shimao Development Project the revenue base of the Group will be broadened instead of solely relying on the sale of the residential developments and leasing of commercial properties.

As stated in the letter from the Board, the Company appointed two new executive Directors, namely, Mr. Chan Loo Shya and Mr. Tung Chi Shing with effect from 19 February 2005. We note that as stated in the letter from the Board, Mr. Chan was involved in a variety of properties such as Kota Kemuning, Pan Pacific Glenmarie Resort, and Glenmarie Golf and Country Club, while Mr. Tung was involved in Island Shangri-La and Conrad Hotel in Pacific Place, Phase 1B of the University of Hong Kong, Stanley Fort Married Quarters, the Pumping station area of the Daya Bay Nuclear Power Station and a Xian five-star hotel in the PRC. In light of this, we are of the view that the extensive experience in a variety of property development projects of these two executive Directors will be beneficial to the Company for the Suifenhe Shimao Development Project.

LETTER FROM PLATINUM

In addition, as stated in the letter from the Board, pursuant to the Undertaking (as defined in the letter from the Board), the principal terms of the Undertaking stated that the parties agreed that the Suifenhe Shimao Development Project shall not constitute Property Business (as defined in the circular of the Company dated 26 February 2005) in the PRC. Accordingly, as stated in the letter from the Board, the Directors are of the view that the Company will not be in breach of the Undertaking by entering into the S&P Agreement. As stated in the letter from the Board, as the Acquisition is not conditional on the approval of the Undertaking to delineate the respective business of the Company, and Mr. Hui and other parties, the Board considers that there will be no material impact on the Acquisition in case this Undertaking is not approved.

As stated in the letter from the Board, the Directors are of the view that the property market at the Municipality of Suifenhe in the PRC is relatively less mature when compared with the major cities such as Shanghai and Beijing and the location is relatively remote. Accordingly, it is difficult to evaluate potential return on investment as there is a lack of benchmark in the property market. However, based on our discussion with the management of the Company and our review of the Company's return on investment schedule, the average annual return on investment from the development of the Exhibition Center for the three years ending 31 December 2007 would amount to approximately 61% (based on the net return from estimated sales divided by the total estimated costs of development, annualized based on the total expected duration for the completion and sale of the Exhibition Centre). According to the 2003 and 2004 annual report and accounts of the Group, the Group's return on equity for 2003 and 2004 was approximately 27% and 19% respectively. In light of this, we consider the return on investment from the Exhibition Center is satisfactory.

In light of the above, in particular:

- (i) positive commercial and economic development of the PRC and in particular the Heilongjiang Province and the Municipality of Suifenhe, and Russian Federation; and
- (ii) the broadening of the revenue base of the Group with the diversification into various areas of property development due to the Suifenhe Shimao Development Project,

we are of the view that the Acquisition is in the usual and ordinary course of business of the Company and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM PLATINUM

B. Basis of the valuation of the Acquisition

1. Valuation of the Acquisition

The Consideration comprises the Share Consideration and the Loan Consideration. The Share Consideration is HK\$301,609,000 and the Loan Consideration is HK\$194,611,000. As stated in the letter from the Board, the Consideration was negotiated on an arm's length basis and the valuation was determined with reference to: (i) the audited consolidated net deficit of Value Ahead Group as at 31 December 2004 as stated in the accountants' report of Value Ahead as set out in Appendix I of the Circular; (ii) the valuation surplus after deferred taxation effect of the property interests of Suifenhe Shimao which is based on the valuation of the properties as stated in the valuation report prepared by an independent valuer, which is set out in Appendix IV of the Circular; and (iii) the outstanding loan due from Value Ahead to the Vendor as at 31 December 2004. The valuation for the Acquisition is illustrated in Table 5 below:

Table 5: Calculation of the valuation of the Acquisition

	Book value stated in the accountant's report of Value Ahead as set out in Appendix I <i>HK\$'000</i>	Property valuation stated in the valuation report prepared by Savills (Hong Kong) Limited as set out in Appendix IV <i>HK\$'000</i> (note 1)	Valuation surplus <i>HK\$'000</i>	Applicable tax Rate	Valuation surplus after deferred tax <i>HK\$'000</i>
Fixed assets — hotel under development	27,959	50,283	22,324	33%	14,957
Properties held for development (note 2)	176,567	305,660	129,093	33%	86,492
Properties for sale under development (note 2)	61,589	373,585	311,996	30%	218,397
	<u>266,115</u>	<u>729,528</u>	<u>463,413</u>		319,846
Consolidated net deficit of Value Ahead Group as at 31 December 2004 per Appendix I					<u>(3,620)</u>
Valuation of the issued share capital of Value Ahead Group					316,226
Valuation of outstanding loan due from Value Ahead Group to the Vendor as at 31 December 2004 per Appendix I					<u>194,611</u>
Total valuation for Value Ahead Group					<u><u>510,837</u></u>
Consideration					<u>496,220</u>
Discount on valuation					<u><u>14,617</u></u>

LETTER FROM PLATINUM

Note 1: The currency stated in the valuation report set out in Appendix IV is in RMB, while in this table, exchange rate of HK\$1 = RMB1.06 is used for the exchange of the property valuations. The valuation is related to the First Phase Land, where land use rights are obtained and zero valuation for the Second Phase Land and the Russian portion where there are currently no land use rights.

Note 2: The properties held for development represents the undeveloped portion of the First Phase Land. The properties for sale under development represents costs incurred for the Exhibition Centre. Please refer to Appendix I for the details of above mentioned fixed assets, properties held for development and properties held for sale under development.

Source: Company data, Appendix I and Appendix IV of the Circular

As illustrated as Table 5 above, the total original cost to the Vendor for the Suifenhe Shimao Development Project amounted to approximately HK\$194,611,000 while the Consideration, which is based on the total valuation for the Value Ahead Group as set out above, was HK\$496,220,000. Although we note that the Consideration is substantially above the total original cost to the Vendor for the Suifenhe Shimao Development Project, this difference is mainly attributable to the valuation surplus after deferred tax of the assets held by Value Ahead Group of approximately HK\$319,846,000, which is with reference to the valuation report prepared by Savills (Hong Kong) Limited (“Savills”) as set out in Appendix IV to the Circular. In light of this, we are of the view that this is acceptable. Furthermore, as set out above, the Consideration represents a discount of approximately 2.9% to the total valuation for Value Ahead Group of approximately HK\$510,837,000.

Based on our discussion with Savills, we noted that for the valuation of the property interests of the Suifenhe Shimao Development Project as at 30 April 2005, Savills has carried out site inspection of the properties of the Suifenhe Shimao Development Project. Based on our discussion with Savills, they have confirmed that they have relied on the advice given by the Group and the Group’s legal advisor on the PRC laws regarding the title to the property interests of the Suifenhe Shimao Development Project. According to the valuation report set out in Appendix IV of the Circular, the residual method of valuation was used for the Exhibition Centre by reference to the open market value of the property concerned, assuming newly completed and the comparison method of valuation was used for the five-star hotel and the remaining portion of First Phase Land by reference to actual sales or offerings when comparable properties were made.

As set out in the valuation report, because of the lack of comparable market transactions in the locality in which the property is situated, the residual method has been applied in the valuation of the Exhibition Centre, which was confirmed with Savills, is generally acknowledged as being a less reliable valuation method. The residual method is essentially a means of valuing land by reference to its development potential by deducting costs and developer’s profit from its estimated completed development value. It relies upon a series of assumptions by the valuer which produce an arithmetical calculation of the expected current sale value as at the valuation date of the property being developed or held for development or redevelopment (please refer to the Appendix IV of the Circular for details of this method). We note that, as stated in the valuation report in Appendix IV of the Circular, the valuation report was prepared in accordance with the Guidance Notes

LETTER FROM PLATINUM

on the Valuation of Property Assets published by The Hong Kong Institute of Surveyors, Chapter 5 and Practice Note 12 of Listing Rules. For further details of the valuation report, please refer to Appendix IV of the Circular. In light of the above, we are of the opinion that although the residual method is generally acknowledged as being a less reliable valuation method, its application is in line with normal market practice.

2. *Consideration of the Acquisition*

Pursuant to the S&P Agreement, the Consideration is to be satisfied by way of issuance of the Convertible Note and Promissory Note in the following manners:

- (i) as to HK\$250,000,000, by way of issuance of the Convertible Note on the Completion Date; and
- (ii) as to the balance of HK\$246,220,000, by way of issuance of the Promissory Note on the Completion Date.

Details of the terms and conditions of the Convertible Note and the Promissory Note are stated in sections headed "Principal terms of the Convertible Note" and "Principal terms of the Promissory Note" in the letter from the Board.

(i) *Promissory Note*

We have reviewed the principal terms of the Promissory Note as stated in the letter from the Board. Details of our analysis are as follows:

(a) **Interest rate**

Pursuant to the S&P Agreement, the Company will issue the Promissory Note to Dynamic Keen Developments Limited on the Completion Date. The Promissory Note bears interest at the rate of 2.0% per annum (the "Promissory Rate"), payable in arrears on the last day of every six-month period from the date of issuance of the Promissory Note. For comparison purpose, we note that the Promissory Rate is lower than the Hong Kong dollar prime rate (the "Prime Rate") of 5.0% and the one-year and three-year lending rates for RMB in the PRC (the "RMB Lending Rate") of 5.5% as at the last trading date of the Share before its suspension of trading announced by the Company on 21 February 2005 (the "Last Trading Date"). As the Promissory Rate will carry an interest rate lower than the Prime Rate, it is reasonable to suggest that the Company is able to have savings in the interest payment by issuance of the Promissory Note as compared with debt financing from outside sources. We have reviewed the terms of other promissory notes issued during the two years up to and including the Last Trading Date (the "Review Period") by publicly listed companies in Hong Kong which have engaged in property investment and/or development (the "Comparable Promissory Note

LETTER FROM PLATINUM

Issuances”) in the Review Period, the results of which are shown in Table 6 below:

Table 6: Details of the Comparable Promissory Note Issuances

Issuer (Stock code)	Date of announcement	Secured/ Unsecured	Principal amount <i>HK\$ million</i>	Average interest rate (per annum) %	Term (year(s))
SimSen International Corporation Limited (993)	15 February 2005	Secured	16.78	0.00	1
Cheung Tai Hong Holdings Limited (199)	24 March 2004	Secured	6.50	5.50	1
Swank International Manufacturing Company Limited (663)	9 September 2003	Unsecured	163.00	6.00	2.75
China Rich Holdings Limited (1191)	8 September 2003	Unsecured	90.00	3.00	3
Average				3.6	1.94
The Company (649)	18 February 2005	Unsecured	246.22	2.00	4

Source: Circulars and announcements of respective companies

As shown in Table 6 above, we note that the Promissory Rate of 2.0% is lower than the average interest rate of approximately 3.6% of the Comparable Promissory Note Issuances. Furthermore, we note that the Promissory Rate is even lower than the interest rate offered by the secured promissory note of Cheung Tai Hong Holdings Limited stated above. It is normal business practice that loans with longer maturity periods usually require higher interest rates. However, the maturity term of the Promissory Note of 4 years is longer than the average maturity term of the Comparable Promissory Note Issuances of 1.94 years, while the Promissory Rate is lower than the average interest rate of Comparable Promissory Note Issuances at approximately 3.6%. Therefore, we are of the view that the terms of Promissory Rate are fair and reasonable.

(b) Maturity date

As stated in the letter from the Board, the Promissory Note will mature at the fourth anniversary from the date of its issue. As shown in Table 6 above, the maturity term of the Promissory Note is longer than the average maturity period of the Comparable Promissory Note Issuances of 1.94 years. This implies that the Promissory Note provides the Company with a longer repayment period than the Comparable Promissory Note Issuances. Furthermore, we have discussed with the management of the Company and they are of the view that the maturity date of the Promissory Note is in line with the development process of the Suifenhe Shimao Development Project and the repayment of the interest and principal of the Promissory Note will be satisfied by the cash flows generated from the Group’s existing projects and the Suifenhe Shimao Development Project.

LETTER FROM PLATINUM

In light of the fact that the Promissory Rate is lower than the following lending rate parameters:

- (i) the Prime Rate of 5.25% as at the Last Trading Date;
- (ii) the RMB Lending Rate of 5.76% as at the Last Trading Date; and
- (iii) the average interest rate of the Comparable Promissory Note Issuances,

and the maturity term of the Promissory Note is longer than the average maturity term of the Comparable Promissory Note Issuances, we are of the view that the terms of the Promissory Note are in line with market practices and are fair and reasonable.

(ii) *Convertible Note*

Pursuant to the S&P Agreement, the Company will issue the Convertible Note at the conversion price of HK\$1.35 per Share (the "Conversion Price") which will be issued to Dynamic Keen Developments Limited on the Completion Date. Details of the terms and conditions of the Convertible Note are referred to in the section headed "Principle terms of the Convertible Note" in the letter from the Board. As stated in the letter from the Board, the Conversion Price was subject to adjustment provisions which are standard terms for convertible securities for similar type.

Based on our review of a valuation report prepared by Sallmanns (Far East) Limited ("Sallmanns"), Sallmanns has carried out a review and expressed an independent opinion on the market value of the Convertible Note as at 20 May 2005. Sallmanns has compared the appropriateness of the Black-Scholes model and binomial model for the valuation of the Convertible Note and Sallmanns is of the opinion that the binomial model is more appropriate in this valuation exercise. Based on our discussions with Sallmanns, this is due to the fact that the principal terms of the Convertible Note provides the holder of the Convertible Note the right to convert the Convertible Note into Shares prior to the Maturity Date. In addition, the Company has the right to redeem all the outstanding principal amount of the Convertible Note before the Maturity Date. Through the application of the Binomial model, the possibility of early conversion or redemption can be included in the valuation model while the Black-Scholes model is not able to apply the possibility of early conversion or redemption. Therefore no calculation has been performed based on the Black-Scholes model. We consider that the valuation model adopted by Sallmanns in valuing the Convertible Note, which is a common valuation methodology for valuing convertible notes, is appropriate and reasonable. Based on the valuation report, Sallmanns is of the opinion that the market value of the Convertible Note is approximately HK\$232,994,000, which is below its principal amount of HK\$250,000,000. We note the principal amount of the Convertible Note is at approximately 7.30% premium to its market value.

LETTER FROM PLATINUM

Based on our discussion with the management of the Company, the premium of the Conversion Price as compared to the closing price per Share as at the Last Trading Date was determined with reference to market comparables. For reference and comparison, we have reviewed the terms of convertible notes issued during the Review Period by publicly listed companies in Hong Kong which are engaged in property investment and/or development (the “Comparable Convertible Note Issuances”). Details of these issues are set out as follows:

Table 7: Details of the Comparable Convertible Note Issuances

Issuer (Stock code)	Date of announcement	Principal amount <i>HK\$ million</i>	Average interest rate (per annum) %	Term (year(s))	Average conversion price per share <i>HK\$</i>	Closing price per share before announcement <i>HK\$</i>	Conversion premium/ (discount) %
New Smart Holdings Limited (91)	15 February 2005	11.40	2.00	5	0.25	0.194	28.87
China Sci-Tech Holdings Limited (985)	3 February 2005	60.00	3.00	3	0.35	0.29	20.69
Shanghai Zendai Property Limited (755)	2 February 2005	80.00	5.00	3	0.24	0.25	(4.00)
Premium Land Limited (164)	6 January 2005	31.20	3.00	0.5	0.03	0.042	(28.57)
Capital Estate Limited (193)	5 January 2005	36.40	2.00	1.5	0.028	0.031	(9.68)
Wang On Group Limited (1222)	22 November 2004	37.18	1.00	2.5	1.30	1.29	0.78
Far East Consortium Limited (35)	10 November 2004	656.00	0.00	5	4.1	3.05	34.43
Sino Land Limited (83)	20 October 2004	2,000.00	1.63	5	9.225	7.15	29.02
Silver Grant International Industries Limited (171)	21 September 2004	440.00	1.50	2	2.20	2.525	(12.87)
Soundwill Holdings Limited (878)	21 June 2004	147.23	2.00	4	1.68	1.42	18.31
Average			2.11				7.70
The Company (649)	18 February 2005	250.00	1	2	1.35	1.17	15.38

Source: Circulars and announcements of respective companies

LETTER FROM PLATINUM

(a) Interest rate

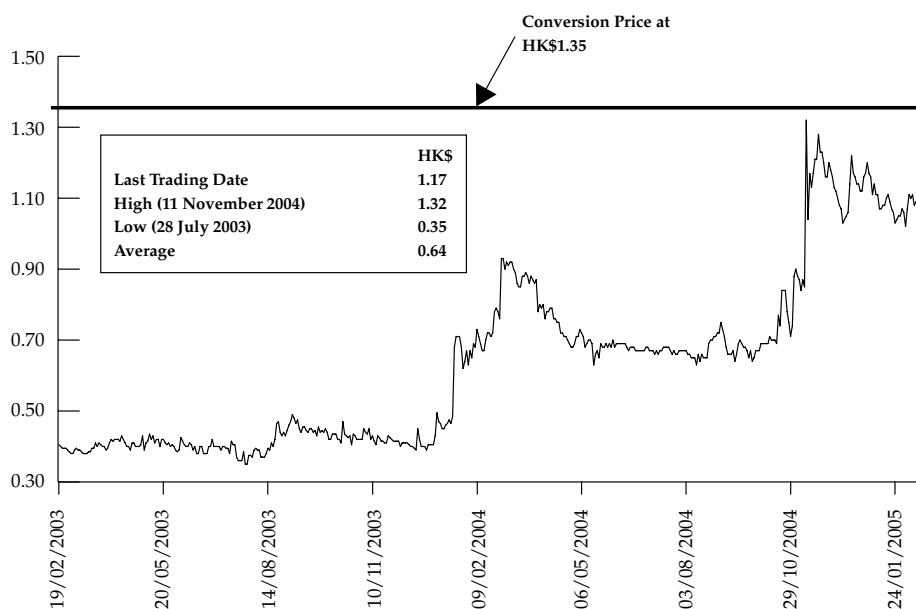
The Convertible Note bears a interest rate of 1% per annum (the “Convertible Rate”), payable in arrears on the last day of every 6-month period from the date of issuance of the Convertible Note. For comparison purpose, we note that the Convertible Rate is lower than the Prime Rate of 5.25% and the one-year and three-year RMB Lending Rate of 5.76% as at the Last Trading Date. As the Convertible Note will carry an interest lower than the Prime Rate and the RMB Lending Rate, the Company will incur less interest expense by issuance of the Convertible Note as compared with debt financing from outside sources.

In addition, by comparison, we note that the Convertible Rate is below the average interest rate of the Comparable Convertible Note Issuances of approximately 2.11% per annum and falls within the range of interest rates of the Comparable Convertible Note Issuances.

(b) Conversion price

The following chart illustrates the Conversion Price of HK\$1.35 per Share when compared with the closing prices per Share as quoted on the Stock Exchange during the Review Period:

Chart 4: Comparison of Conversion Price and closing price per Share



Source: Bloomberg

LETTER FROM PLATINUM

As shown in the Chart 4 above, during the Review Period, the Shares traded within the range of prices from HK\$0.35 to HK\$1.32 with an average of approximately HK\$0.64. Chart 4 indicates that the Conversion Price is at a price higher than the closing price per Share during the whole Review Period.

Table 8 below summarises the comparison between the Conversion Price and the average closing price per Share at different dates up to and including the Last Trading Date and the premium/(discount) that the Conversion Price of HK\$1.35 per Share represents thereof:

Table 8: Comparison between Conversion Price and the average closing prices per Share

	Share price <i>HK\$ per Share</i>	Premium/ (discount) %
Closing price per Share on the Last Trading Date	1.17	15.38
Average closing price per Share over the last ten trading days up to and including the Last Trading Day	1.113	21.29
Average closing price per Share over the last one month up to and including the Last Trading Day	1.084	24.54
Average closing price per Share over the last three months up to and including the Last Trading Day	1.12	20.54
Average closing price per Share over the last six months up to and including the Last Trading Day	0.941	43.46
Average closing price per Share over the last one year up to and including the Last Trading Day	0.835	61.68
Closing price per Share on the Latest Practicable Date	0.75	80.00

Source: Bloomberg

LETTER FROM PLATINUM

As illustrated above, the Conversion Price generally represents premiums as compared to the average closing price of the Shares of our date parameters. Furthermore, the Conversion Price represents a premium of approximately 62.06% over the audited consolidated net asset value (the "NAV") per Share as at 31 December 2004 before the Acquisition and approximately 45.47% over the pro forma adjusted unaudited consolidated NAV per Share as at 31 December 2004 after the Acquisition and upon full conversion of the Convertible Note.

Moreover, by comparison, the premium of the Conversion Price to the closing price per Share on the Last Trading Date was approximately 15.38%, while the average premium of the Comparable Convertible Note Issuances conversion was approximately 7.70%.

In light of the following:

- (i) the principal amount of the Convertible Note is issued at a premium to its market value;
- (ii) the Conversion Rate is below both the Prime Rate and the RMB Lending Rate as at the Last Trading Date;
- (iii) the Conversion Rate is below the average rate of the Comparable Convertible Note Issuances;
- (iv) the Conversion Price is above the closing price per Share during the whole Review Period;
- (v) the Conversion Price is at premiums to the average closing price per Share for all the date parameters; and
- (vi) the Conversion Price is at premiums over the pro forma adjusted unaudited consolidated NAV per Share before and after the Acquisition;

we are of the view that the terms of the Convertible Note are in line with market practice and are fair and reasonable.

(iii) Alternative financing

We note that the Company will raise HK\$496,220,000 to satisfy the Consideration through the issuance of the Promissory Note and Convertible Note. Assuming there is no issuance of the Promissory Note and Convertible Note to satisfy the Consideration, the Company has to use its internal financial resources and/or seek other financing alternatives such as bank borrowings, placing of Shares to other Independent Shareholders or to the Vendor and/or rights issue to finance this HK\$496,220,000 amount. In assessing the various possible financing methods, we note the following:

LETTER FROM PLATINUM

- (a) based on the 2004 annual report and accounts of the Group, the cash and bank balances of the Group as at 31 December 2004 amounted to only approximately HK\$18,359,000, which is not adequate to satisfy the Consideration;
- (b) most of the bank borrowings in Hong Kong are interest bearing at interest rates based upon either Hong Kong Interbank Offered Rate or the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time, which fluctuates upon, among other things, various economic and political factors. This is evident in the recent increase in the Prime Rate by 0.5% from 5.25% to 5.75%. In addition, the Promissory Note and the Convertible Note bear lower and fixed interest rates and so are not subject to interest rate fluctuation resulting from any economic and political factor;
- (c) placing of Shares to other Independent Shareholders to finance this HK\$496,220,000 amount, representing approximately 60.56% of the market capitalization as at the Latest Practicable Date, will cause significant dilution to the existing Independent Shareholders.
- (d) placing of Shares to the Vendor to finance this HK\$496,220,000 amount will also cause significant dilution to the shareholding of the existing Independent Shareholders as illustrated in (c) above. In addition, the placing to the Vendor, which is wholly owned by Mr. Hui, would result in the public float of the Shares to fall below the limit prescribed under the Listing Rules; and
- (e) the issue price of the Shares under other fund raising activities such as placing/rights issue may be, in general, set at a discount to the prevailing market price of Shares as compared to the Conversion Price, which is set at a premium to the prevailing market price of the Shares.

In light of the above, we note that the issuance of the Promissory Note and the Convertible Note incurs lower costs or causes less dilution to the Independent Shareholders than the aforementioned alternatives. Therefore, we are of the opinion that the issuance of the Promissory Note and Convertible Note is a reasonable means of financing the Acquisition for the Company.

C. Other material terms of the S&P Agreement

The Completion is conditional upon, inter alia, the following conditions precedent being satisfied:

1. the Company being satisfied in all respects in its absolute opinion with the results of a due diligence investigation to be carried out by it and/or its professional advisers on the assets, liabilities, business and prospects of Value Ahead Group and the status, condition and title of the First Phase Land and such investigation having revealed nothing to show that any of the warranties of the Vendor under the S&P Agreement are untrue, misleading or incorrect in any material respect;

LETTER FROM PLATINUM

2. approval of: (i) the S&P Agreement and the transactions contemplated therein; and (ii) the issuance of the Convertible Note and the allotment and issuance of the Conversion Shares upon the exercise of the conversion rights attached to the Convertible Note, in each case by ordinary resolution passed at the SGM by the Independent Shareholders;
3. the Company having obtained a legal opinion from a firm of PRC lawyers acceptable to it in relation to Suifenhe Shimao and being satisfied in all respects in its absolute opinion with the contents of such legal opinion including but not limited to: (i) the status, condition and title of the properties owned by Suifenhe Shimao; and (ii) the due establishment and valid existence of Suifenhe Shimao and the status of the registered capital, licences, permits and approval and assets of Suifenhe Shimao; and
4. the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, all the Conversion Shares.

The Company shall have the right to waive any or all of the conditions specified in the S&P Agreement except for those in conditions (2) and (4) above. If any of the conditions of the S&P Agreement is not fulfilled or waived by the Company on or before 30 June 2005 or such other date as shall be agreed between the Vendor and the Company, the S&P Agreement shall terminate and none of the parties shall have any claim against the other for costs, damages, compensation or otherwise save in respect of any prior breach of the S&P Agreement. In the event that the above conditions (1) and/or (3) are waived, further announcement with details on reasons for such waiver will be made by the Company. In the event that the above condition (1) is not fulfilled because Suifenhe Shimao is unable to obtain the permission regarding the validity of the land grant of the First Phase Land from the Heilongjiang Land Bureau and/or such permission can only be obtained on condition that additional land premium for the First Phase Land should be paid by Suifenhe Shimao and the Vendor does not pay for such additional land premium, the Board intends that the Company will not waive such condition and the S&P Agreement shall be terminated. In the event that the Board changes its intention to waive such condition, the Company will further seek approval from the Independent Shareholders for such waiver.

D. Financial impact of the Acquisition

1. Effect on NAV

Based on the Financial Information of the Enlarged Group set out in Appendix III of the Circular, the NAV of the Group as at 31 December 2004 amounted to approximately HK\$689,461,000. Upon the Completion and based on Appendix III of the Circular, the NAV of the Enlarged Group will be approximately HK\$689,461,000 after taking into account the valuation surplus of HK\$319,846,000. However, upon full conversion of the Convertible Note, the NAV of the Enlarged Group will be approximately HK\$939,461,000, representing an increase of approximately 36.26% as a result of the increase in the share capital contributed by the issuance of the Conversion Shares.

LETTER FROM PLATINUM

Based on Appendix III of the Circular, the NAV of the Group of approximately HK\$689,461,000 as at 31 December 2004 and 827,639,886 Shares in issue as at the Latest Practicable Date, the NAV per Share is approximately HK\$0.83. Upon Completion, the NAV per Share will remain at approximately HK\$0.83 as stated in Appendix III of the Circular. According to the S&P Agreement, 185,185,185 Conversion Shares will be issued upon full conversion of the Convertible Note. After the conversion, the NAV per Share will be approximately HK\$0.93, representing an increase of approximately 12.05% comparing to the NAV per Share before full conversion of the Convertible Note.

In light of the above, there are no effects on the NAV of the Group and NAV per Share upon Completion, while there will be positive effect on the NAV of the Group and NAV per Share upon the conversion of the Convertible Note. Therefore, we are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole.

We note that as stated in the letter from the Board and Appendix III of the Circular, the calculation of deferred tax liabilities has not taken into account of the effect of the potential LAT (as defined in the letter from the Board) attributable to the Enlarged Group upon the realisation of the property interests which may otherwise amount to approximately HK\$137,201,000, net of income tax saving. The calculation of LAT is based on the Capital Values and the current applicable tax rate of the PRC. As advised by the PRC legal adviser to the Company, the levying of LAT has not yet been actually implemented within the Heilongjiang Province in which the property interests of Suifenhe Shimao are located and if such non-levying policy remains unchanged, Suifenhe Shimao for the time being is not required to pay LAT attributable to the appreciation of its property interests. For the purpose of completion of the S&P Agreement, the Company will require, and the Vendor and Mr. Hui as guarantor have agreed, to enter into a deed of tax indemnity to indemnify the Company against, inter alia, such amount of the potential LAT not exceeding HK\$137,201,000 arising from the valuation surplus of the property interests of Suifenhe Shimao. Since: (i) the potential LAT payable by Suifenhe Shimao has been indemnified by the Vendor and guaranteed by Mr. Hui; and (ii) the cap as stated in the deed of tax indemnity is sufficient to address the potential LAT as set out in Appendix III of the Circular, we are of the view that this is acceptable. Furthermore, as stated in the letter from the Board, if the actual market value of the property interests of Suifenhe Shimao upon realization is higher than the Capital Values, Suifenhe Shimao will bear the LAT attributable to the appreciation of its property interests beyond the Capital Values. As this potential appreciation in market value of the property interests of Suifenhe Shimao is beneficial to and in the interests of the Company, we are of the view that Suifenhe Shimao being responsible for this potential LAT attributable to the appreciation of its property interests beyond the Capital Values as aforesaid is acceptable.

2. Effect on earnings and earnings per Share

According to the 2004 annual report and accounts of the Group, for the year ended 31 December 2004, the net profit attributable to the Shareholders amounted to approximately HK\$132,639,000. According to the accountants' report of Value Ahead set out in Appendix I of the Circular, the net profit attributable to shareholders of the Value

LETTER FROM PLATINUM

Ahead Group was approximately HK\$12,000 for the year ended 31 December 2003, the net loss attributable to shareholders for the Value Ahead Group was approximately HK\$3,899,000 for the year ended 31 December 2004, which represent approximately 0.01% and approximately 2.94% respectively of the net profit attributable to the Shareholders and also the earnings per Share of the Company for the year ended 31 December 2004.

In addition, upon full conversion of the Convertible Note, 185,185,185 Shares will be issued and the earnings per Share will be diluted from approximately HK\$0.16 per Share to approximately HK\$0.13 per Share, which represents a dilution effect of approximately 18.75%. Set out below is the calculation of this dilution effect on the earnings per Share:

Table 9: Dilution on earnings per Share

Audited net profit of the Group for the year ended 31 December 2004	132,639,000
Total issued Shares as at 31 December 2004	827,418,282
Basic earnings per Share	0.16
Conversion Shares	185,185,185
Diluted earnings per Share	0.13

Source: Annual report and accounts of the Group for the year ended 31 December 2004

In light of the above and in particular, the resulting increase in the NAV of the Company upon the full conversion of the Convertible Note, we are of the view the dilution effect of the earnings per Share upon full conversion of the Convertible Note is acceptable.

Based on the results of the Group and the Value Ahead Group stated above, we are of the view that the effect on net profit and earnings per Share as a result of the Acquisition is not material in comparison to the consolidated earnings of the Group for the corresponding periods.

3. *Effect on working capital and gearing*

As the consideration for the Acquisition will be settled by the issuance of the Convertible Note and Promissory Note, no immediate cash outlay is required for the Acquisition. In light of this, the Acquisition will not cause any material adverse effect on the working capital of the Group. However, Independent Shareholders should note that the repayment of the principal of the Promissory Note of HK\$246,220,000 by the Group will cause cash outlay at the maturity of the Promissory Note. As stated in the letter from the Board, the management of the Company expects that the repayment of the Promissory Note will be financed by the internal resources of the Company. The gearing ratios of the

LETTER FROM PLATINUM

Group and the Enlarged Group, based on the financial information as set out in Appendix III of the Circular, as at 31 December 2004 are illustrated in Table 10 as follows:

Table 10: Gearing ratios of the Group before the Acquisition and of the Enlarged Group after the Acquisition

	Gearing ratio		
	External borrowings/ Shareholder's funds	Interest bearing borrowings/ Shareholder's funds	Interest bearing borrowings/Enlarged Shareholder's fund upon full conversion of the Convertible Note
Gearing ratio of the Group as at 31 December 2004 before the Acquisition	28.49%	34.29%	34.29%
Gearing ratio of the Enlarged Group as at 31 December 2004 after the Acquisition	28.49%	98.89%	47.77%

As illustrated in Table 10 above, if only external borrowings are taken into accounts in the calculation of the gearing ratio, as there will be no change in the external borrowings and the shareholder's fund, there will not be any impact on the gearing level of Group as a result of the Acquisition. If all interest bearing borrowings, i.e. including the Promissory Notes and the Convertible Note, are taken into account, the gearing ratio of the Group will increase from approximately 34.29% to approximately 98.89% after the Acquisition.

4. Funding for Suifenhe Shimao Development Project

In addition, Independent Shareholders should note that, as stated in the letter from the Board, as at 30 April 2005, the outstanding costs for the completion of the Exhibition Centre and the Hotel amount to approximately HK\$364,988,000. The outstanding construction costs and professional fees will be financed from the proceeds from pre-sale of property units of the Exhibition Centre, which has commenced since December 2004. The pre-sale permit of the Exhibition Centre has been obtained. Generally, pre-sale permit in Municipality of Suifenhe could be obtained after the issuance of the Certificate of State-owned Land Use; the Construction Works Planning Permit and the Construction Works Commencement Permit. As stated in the letter from the Board, according to the PRC legal opinion, although Suifenhe Shimao has not yet obtained permission for the land grant of the First Phase Land from the Heilongjiang Land Bureau, pursuant to the Commodity Housing Pre-Sale Permit, Suifehe Shimao can legally commence pre-sale of property units of the Exhibition Centre.

LETTER FROM PLATINUM

As set out in the valuation report of the Exhibition Centre, pursuant to the Commodity Housing Pre-sale Permit issued by the Suifenhe Real Estate Administration Bureau on 19 October 2004, 1,767 units of the Exhibition Centre with a total gross floor area of 79,914 sq.m. are permitted to be pre-sold. Pre-sale of property units of the Exhibition Centre has commenced in December 2004 and 21 units of the property were sold subject to various agreements for sale and purchase in a total consideration of RMB12,517,338 as at 30 April 2005. The capital value of the property, assuming full completion under the development proposal as described in note 9 of the valuation certificate for Property 1 as contained in the property valuation report set out in Appendix IV to the Circular, as at 30 April 2005 is RMB963,000,000, inclusive of the units that are contracted to be sold and the aggregate value of which is stated at their total contracted amount. In addition, future bank borrowings of around RMB100,000,000 (equivalent to approximately HK\$94,340,000) are expected to be obtained to finance the construction costs (the "Construction Loan"). Based on our discussion with management of the Company, the approval for the Construction Loan is in final stages and the Company expects final approval of the Construction Loan will be obtained in May 2005. The Construction Loan could further increase the Enlarged Group's gearing ratio. The effect on gearing ratio is illustrated as Table 11 below:

Table 11: Gearing ratios of the Group before the Acquisition and of the Enlarged Group after the Acquisition (including the Construction Loan)

	Gearing ratio		
	External borrowings/ Shareholder's funds	Interest bearing borrowings/ Shareholder's funds	Interest bearing borrowings/Enlarged Shareholder's funds upon full conversion of the Convertible Note
Gearing ratio of the Group as at 31 December 2004 before the Acquisition	28.49%	34.29%	34.29%
Gearing ratio of the Enlarged Group as at 31 December 2004 after the Acquisition and the Construction Loan	42.12%	112.57%	57.81%

As stated above, the total interest bearing borrowings and gearing ratio based on total interest bearing borrowings will increase as a result of the Acquisition. In this regard, it is our understanding from the Directors that the repayment of the borrowings will be satisfied by the cash flows generated from the Group's existing projects and the Suifenhe Shimao Development Project, and the gearing ratio will be decreased as a result.

LETTER FROM PLATINUM

As stated in the letter from the Board, the outstanding costs to completion for the remaining portion of the First Phase Land (other than the Exhibition Centre and the Hotel) amounts to approximately RMB760,970,000 (equivalent to approximately HK\$717,896,000). We also note that the development plan is preliminary and is subject to finalization upon completion of construction of the Exhibition Centre and the Hotel. Based on our discussion with the management of the Company and the cash flow forecast prepared by the Company, we note that the Company would have adequate cash inflows from: (i) the expected sales of the Exhibition Centre; (ii) the expected revenue from the operation of the Hotel; and (iii) the Construction Loan to support the cash outflows for the construction costs of the remaining portion of the First Phase Land. In light of this, we are of the view that the Company would have adequate financial resources to support the development of the remaining portion of the First Phase Land. Based on our discussion with the management of the Company, as this development plan is preliminary and is subject to finalization, the outstanding costs to completion for the remaining portion of the First Phase Land is only a preliminary estimate and may change depending on the then economic and market conditions. However, if the cash flows and/or the outstanding construction costs deviate substantially from the estimates of the management of the Company, the Company may require additional financing. The source of the additional financing, if any, will depend on the then economic and market conditions.

We have reviewed the cash flow forecast of the Group up to March 2006, which has been reviewed by the reporting accountant of the Company, and the cash flow forecast for the Exhibition Center and the Hotel up to 31 December 2007 as the management of the Company is of the view that it is not able to estimate the cash flows of the Suifenhe Shimao Development Project other than the Exhibition Center and the Hotel reasonably at this pre-mature stage. Based on our understanding, it is the view of the Directors that the pre-sale expectation of the Exhibition Center is realistic. Based on our discussion with the management of the Company, the abovementioned pre-sale expectation of the Exhibition Center is already based on a discount to the average price of the pre-sold units of the Exhibition Center. We note that based on the projected cash inflows from: (i) the expected pre-sales of the Exhibition Center; and (ii) the Construction Loan of approximately HK\$94,340,000, as compared to the total expected development costs of the Exhibition Centre and the Hotel, which amount to approximately HK\$364,988,000 as stated in the letter from the Board, the Group would have adequate cash flow to finance the development of the Exhibition Center and the Hotel. In light of this, we are of the view that the cash flow forecast of the Group is acceptable to support the development costs of the Exhibition Center and the Hotel. As advised by the management of the Company, the repayment of the Promissory Note and the Convertible Note (in case the Convertible Note is not converted) could be financed from: (i) sale of the "No. 21 Severn Road" project and disposal of other existing investment properties, being Dong Fang Hong Shopping Centre and 3 units of Epoch Centre Phase II (together with a total open market value of approximately HK\$220 million as stated in the annual report and accounts of the Group for the year ended 31 December 2004); (ii) dividend receipts from the Group's 50% equity interest in the Lakeside Garden property development. In light of the above and based on our discussion with the

LETTER FROM PLATINUM

management of the Company, we are of the view that it is reasonable that the Company can repay the Promissory Note. In addition, upon the full conversion of the Convertible Note, the gearing ratio of the Enlarged Group after the Acquisition will decrease from approximately 98.89% to approximately 47.77% (excluding the Construction Loan) and from approximately 112.57% to approximately 57.81% (including the Construction Loan). In light of this, we are of the opinion that the increase in total interest bearing borrowings and gearing ratio is acceptable.

5. *Dilution of shareholding*

Upon full conversion of the Convertible Note at the conversion price of HK\$1.35 per Share, 185,185,185 Conversion Shares will be issued. As stated in the letter from the Board, pursuant to the S&P Agreement, the Vendor agrees not to, and Mr. Hui agrees to procure the Vendor not to, exercise the conversion rights attaching to the Convertible Note to the extent that such exercise would result in the public float of the Shares to fall below the limit prescribed under the Listing Rules from time to time. The Stock Exchange has also indicated that no approval will be given for any Conversion Shares if the issue of the Conversion Shares will result in the breach of Rule 8.08 of the Listing Rules. Therefore, the Vendor cannot fully convert the Convertible Note, that is, the Vendor can either transfer part of the Convertible Note to the public or only exercise part of the Convertible Note in order to comply with Rule 8.08 of the Listing Rules, assuming that no Shares will be repurchased and no new Shares will be issued from the Latest Practicable Date to the date of conversion of the Convertible Note (both dates inclusive).

LETTER FROM PLATINUM

Based on the shareholding distribution of the Company as at the Latest Practicable Date, assuming that no Shares will be repurchased and no new Shares will be issued from the Latest Practicable Date to the date of conversion of the Convertible Note (both dates inclusive), the dilution impact upon the full conversion of the Convertible Note is illustrated in Table 12 below:

Table 12: Shareholding in the Company before and upon the issuance of the Conversion Shares

	Existing shareholding structure		Shareholding structure upon the full conversion of the Convertible Note	
	<i>Number of Shares</i>	<i>Approximate shareholding percentage (%)</i>	<i>Number of Shares</i>	<i>Approximate shareholding percentage (%)</i>
Controlling Shareholder	618,571,397	74.74	618,571,397	61.08
Holder of the Convertible Note	–	–	185,185,185	18.28
Existing Independent Shareholders	209,068,489	25.26	209,068,489	20.64
Total	827,639,886	100	1,012,825,071	100

As illustrated in the Table 12 above, the issuance of the Conversion Shares upon the full conversion of the Convertible Note would result in a dilution to the shareholding of the existing Independent Shareholders of approximately 4.62% from approximately 25.26% to approximately 20.64%. If the Convertible Note is not fully converted, the dilution effect should be less than 4.62%. In light of this, we are of the view that dilution effect is not material and is acceptable to the existing Independent Shareholders.

In light of the above, in particular:

- (i) the potential enhancements of the Acquisition on the NAV and NAV per Share of the Group;
- (ii) the marginal negative impact of the Acquisition on the net profit attributable to the Shareholders of the Company and earnings per Share of the Company;
- (iii) the effects of the Acquisition on the total interest-bearing borrowings and gearing ratio of the Group are acceptable; and

LETTER FROM PLATINUM

- (iv) no material dilution in the shareholding of the Company of the existing Independent Shareholders,

we are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Risk factors

As stated in the letter from the Board, Independent Shareholders should also note the risks of the Suifenhe Shiamo Development Project, which are listed below:

- (i) *Risk associated with the second phase of development in the Chinese border of the Intertrading Zone*

In respect of the second phase of development within the Chinese border of the Intertrading Zone, Suifenhe Shiamo only holds the contractual rights to acquire the Second Phase Land. Further negotiations with the relevant governmental authority of the Municipality of Suifenhe are required to conclude the amount of land premium payable for the acquisition of the land use rights of the Second Phase Land. In the event that the land premium for the land use rights of the Second Phase Land cannot be agreed between Suifenhe Shiamo and the governmental authority of the Municipality of Suifenhe, the acquisition of the Second Phase Land may not materialize and accordingly, the development plan of the second phase of development within the Chinese border of the Intertrading Zone will also not materialize.

- (ii) *Risk associated with property development in the Intertrading Zone*

The Intertrading Zone is a project with focus on property development (including hotel operations). Property development usually requires substantial capital outlay during the construction period and it may take many months or possibly years before positive cashflows can be generated by pre-sales or sales of the completed property developments. The time and costs incurred in completing property development projects can be increased as a result of various factors and may lead to delays in completion of the property development projects and result in costs exceeding those originally budgeted. There is no assurance that the property development projects undertaken by Suifenhe Shiamo will be completed within budget to maintain a profit margin. In the event that Suifenhe Shiamo cannot complete the property development projects within the Intertrading Zone within budget, the financial conditions and profitability of Suifenhe Shiamo may be adversely affected.

- (iii) *Risk associated with the uncertainty of pre-sale or sales of property units in the first phase of development within the Chinese border of the Intertrading Zone*

It is expected that the construction costs and the professional fees of the first phase of development within the Chinese border of the Intertrading Zone will be

LETTER FROM PLATINUM

partly financed by the proceeds from pre-sales or sales of property units. In the event that the proceeds generated by pre-sales or sales of property units are not enough to finance construction costs and the professional fees of the first phase of development within the Chinese border of the Intertrading Zone, there is a possibility that the development plan will be delayed or Suifenhe Shimao needs to obtain further third party financing and thus the prospects, the financial conditions and profitability of Suifenhe Shimao may be adversely affected.

(iv) Risk associated with development in the Intertrading Zone which is a less developed area

The Intertrading Zone, located across the national border between the Municipality of Suifenhe in the PRC and the Municipality of Pogranichny in Russian Federation, is an area newly planned by the Chinese and the Russian governments in 1998 to develop as a Sino-Russian cross border trading zone. The Intertrading Zone is still undergoing the construction of basic infrastructures and has not yet become a well developed region in terms of economic activities. Further, although the Chinese and the Russian governments agreed to simplify the customs formalities for entry into the trading zones such as exemption of entry visa, it is still uncertain as to the level of the tourists traffic, trading activities and prospects of the Intertrading Zone. In the event that there are substantial changes in the policy in relation to the development in the Intertrading Zone by the Chinese or the Russian governments, there is no assurance that level of economic activities and prospects of the Intertrading Zone and the financial conditions and profitability of Suifenhe Shimao will not be adversely affected.

(v) Risk associated with property development plan within Russian border of the Intertrading Zone

Apart from the Co-operative Agreement, Suifenhe Shimao has not acquired any land and/or assets within Russian border of the Intertrading Zone and accordingly, does not have any land use right of the area within the Russian border of the Intertrading Zone. The properties within the Russian border of the Intertrading Zone are intended to be developed into a multi-function complex, a medical centre, a Russian shopping arcade, a financial centre and a five-star casino hotel. Such tentative development plan may be altered subject to the then market conditions and results of further negotiations and agreement between Suifenhe Shimao and the Russian Party. In the event that Suifenhe Shimao and the Russian Party do not reach agreement to such intended development plan, there is a possibility that the development period will be delayed and thus the profitability of Suifenhe Shimao may be adversely affected. In the event that the joint venture companies to be established by Suifenhe Shimao and the Russian Party cannot obtain the necessary approvals as required by the relevant governmental authority of Russian Federation for the purpose of joint venture development in the Intertrading Zone, there is a possibility that the development plan within the Russian border of the Intertrading Zone will be delayed or suspended and the prospects of Suifenhe Shimao may be adversely affected. Further, in the event that Suifenhe Shimao and the Russian Party

LETTER FROM PLATINUM

reach an agreement to adopt a development plan different from the intended plan as stated above, there is no assurance that the financial conditions and prospects of Suifenhe Shimao will not be adversely affected.

(vi) Risk associated with Suifenhe Shimao to be engaged in casino hotel operation within the Russian border of the Intertrading Zone

The Directors noted that the media has recently reported a major crackdown by the Beijing government on gambling and a number of casinos along the borders of the PRC with Russian Federation and Burma have closed. The Directors so far have no information about the details stated in the relevant press article and accordingly could not confirm its accuracy. In addition, Suifenhe Shimao has enquired with the relevant authority of the Municipality of Suifenhe in connection with the establishment of the Intertrading Zone regarding this reported crackdown and the relevant authority did not indicate that there will be any impact on the Suifenhe Shimao Development Project and no notice has been received from the relevant authority as to whether this reported crackdown has any impact on the Suifenhe Shimao Development Project. In the event that Suifenhe Shimao is unable to obtain the necessary approval for its overseas investments in the Russian joint venture company which is to be established for engaging in casino hotel operation, the Russian joint venture company will not operate any casino in businesses comprising the hotel to be constructed within the Russian border of the Intertrading Zone.

(vii) Risk associated with Russian Federation

As stated in the letter from the Board, more than half of the Intertrading Zone lies within Russian Federation. Accordingly, the level of economic activities and prospects of the Intertrading Zone are subject to a significant degree of influence from the economic, political and legal development of Russian Federation. In the event that there are substantial changes in the economic, political and legal development of Russian Federation in the foreseeable future, there is no assurance that level of economic activities and prospects of the Intertrading Zone and the financial conditions and profitability of Suifenhe Shimao will not be adversely affected.

RECOMMENDATION

Having considered the principal factors referred above:

- (i) the Acquisition is in the usual and ordinary course of business of the Group of property development and investment;
- (ii) the positive commercial and economic development of the PRC and in particular the Heilongjiang Province and the Municipality of Suifenhe, and Russian Federation;

LETTER FROM PLATINUM

- (iii) the broadening of the revenue base of the Group with the diversification into various areas of property development due to the Suifenhe Shimao Development Project;
- (iv) the basis of valuation of the Acquisition is fair and reasonable;
- (v) the Consideration, in particular, the terms of the Convertible Note and the Promissory Note are fair and reasonable, and their issuance is a reasonable means of financing the Acquisition for the Company;
- (vi) the financial impacts of the Acquisition on the Group are acceptable; and
- (vii) the risk factors stated above,

we are of the view that, on balance of the above principal factors, in particular, the positive commercial and economic development of the Heilongjiang Province and the Municipality of Suifenhe and the benefits from the Acquisition, namely the broadening of the revenue base of the Group due to the Suifenhe Shimao Development Project, outweigh the risk factors mentioned above, the Acquisition is entered into in the ordinary and usual course of business of the Group, on normal commercial terms, 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 resolution to approve the S&P Agreement and the transactions contemplated thereunder 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



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

The Directors
Shimao China Holdings Limited

25 May 2005

Dear Sirs,

We set out below our report on the financial information relating to Value Ahead Investments Limited ("Value Ahead") and its subsidiaries (hereinafter collectively referred to as the "Value Ahead Group") for the years ended 31 December 2002, 2003 and 2004 (the "Relevant Periods"), for inclusion in the circular of Shimao China Holdings Limited ("Shimao China") dated 25 May 2005 in connection with the proposed acquisition of 100% interest in Value Ahead.

Value Ahead was incorporated in the British Virgin Islands ("BVI") on 5 July 2001 as an investment holding company. Its subsidiary established in the People's Republic of China ("PRC"), Suifenhe Shimao Development & Construction Co., Ltd. ("Suifenhe Shimao"), is engaged in property investment and development. Both Value Ahead and Suifenhe Shimao have adopted 31 December as their financial year end.

No audited accounts have been prepared for Value Ahead since the date of its incorporation as there are no statutory requirements for an entity incorporated in the BVI to prepare audited accounts. Suifenhe Shimao, which was established in the PRC, has prepared its statutory accounts ("PRC GAAP statutory accounts") in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprises, which were audited by a PRC registered accountant as disclosed in note 13 of section II below.

The financial information as set out in sections I and II below (the "Financial Information") has been prepared based on the unaudited management accounts of Value Ahead and the PRC GAAP statutory accounts of Suifenhe Shimao for the Relevant Periods, after making such adjustments as appropriate to comply with the accounting principles generally accepted in Hong Kong and the accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the respective companies comprising the Value Ahead Group, during the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. For the purpose of this report, we have carried out independent audit procedures on these accounts in accordance with Statements of Auditing Standards issued by the HKICPA. We

have also examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountants" issued by the HKICPA.

The directors of Shimaos China and Value Ahead are responsible for the Financial Information. It is our responsibilities to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Value Ahead and of the Value Ahead Group as at 31 December 2002, 2003 and 2004, and of the consolidated results and cash flows of the Value Ahead Group for the Relevant Periods.

I FINANCIAL INFORMATION

(a) Consolidated Profit and Loss Accounts

	<i>Note</i>	Year ended 31 December		
		2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Other revenue	4	–	–	49
Other operating income		–	20	5
Administrative expenses		<u>(14)</u>	<u>(8)</u>	<u>(3,953)</u>
(Loss)/profit for the year	5	<u>(14)</u>	<u>12</u>	<u>(3,899)</u>
(Loss)/earnings per share	8	<u>(14)</u>	<u>12</u>	<u>(3,899)</u>

(b) Consolidated Balance Sheets

	Note	As at 31 December		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Non-current assets				
Fixed assets	10	–	–	29,326
Properties held for development	11	–	–	176,567
Other non-current asset	12	–	–	62,213
		<u>–</u>	<u>–</u>	<u>268,106</u>
Current assets				
Properties under development for sale	14	–	–	61,589
Other receivables, deposits and prepayments		–	–	621
Bank balances and cash		1	–	30,082
		<u>1</u>	<u>–</u>	<u>92,292</u>
Current liabilities				
Advanced proceeds received from customers		–	–	4,355
Other payables and accruals		–	–	19,213
Amount due to immediate holding company	15	–	–	194,611
Amounts due to related companies	16	28	15	22,642
Amount received from Suifenhe Land Resource Department	17	–	–	6,318
Tax payable		–	–	72
		<u>28</u>	<u>15</u>	<u>247,211</u>
Net current liabilities		<u>(27)</u>	<u>(15)</u>	<u>(154,919)</u>
Total assets less current liabilities		<u>(27)</u>	<u>(15)</u>	<u>113,187</u>

(b) Consolidated Balance Sheets (Continued)

	Note	As at 31 December		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Represented by:				
Share capital	18	–	–	–
Reserves	19	<u>(27)</u>	<u>(15)</u>	<u>(3,620)</u>
Capital deficiency		(27)	(15)	(3,620)
Non-current liability				
Amount received from Suifenhe Land Reserve Centre	20	<u>–</u>	<u>–</u>	<u>116,807</u>
		<u>(27)</u>	<u>(15)</u>	<u>113,187</u>

(c) Balance Sheets

		As at 31 December		
	Note	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Non-current assets				
Subsidiaries	13	–	–	205,431
Current asset				
Bank balance		–	–	131
Current liabilities				
Amount due to a subsidiary	13(c)	–	–	10,969
Amount due to immediate holding company	15	–	–	194,611
Amounts due to related companies	16	11	15	–
		11	15	205,580
Net current liabilities		(11)	(15)	(205,449)
Total assets less current liabilities		(11)	(15)	(18)
Represented by:				
Share capital	18	–	–	–
Accumulated losses	19	(11)	(15)	(18)
Capital deficiency		(11)	(15)	(18)

(d) Consolidated Statements of Changes in Equity

		Year ended 31 December		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Capital deficiency at 1 January		(13)	(27)	(15)
(Loss)/profit for the year		(14)	12	(3,899)
Exchange difference		–	–	294
Capital deficiency at 31 December		(27)	(15)	(3,620)

(e) Consolidated Cash Flow Statements

	Note	Year ended 31 December		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Operating activities				
Net cash used in operations	21(a)	(1)	–	(135,135)
Interest received		–	–	49
Net cash used in operating activities		(1)	–	(135,086)
Investing activities				
Additions to fixed assets		–	–	(29,443)
Disposal of a subsidiary	21(b)	–	(1)	–
Net cash used in investing activities		–	(1)	(29,443)
Financing activities				
Increase in amount due to immediate holding company		–	–	194,611
Net cash generated from financing activities		–	–	194,611
(Decrease)/increase in cash and cash equivalents		(1)	(1)	30,082
Cash and cash equivalents at beginning of the year		2	1	–
Cash and cash equivalents at end of the year		1	–	30,082
Analysis of balances of cash and cash equivalents				
Bank balances and cash		1	–	30,082

II NOTES TO THE FINANCIAL INFORMATION

1. Principal activities

The principal activities of the Value Ahead Group are property investment and development. Particulars of Value Ahead's subsidiaries are set out in note 13.

Value Ahead was incorporated in the BVI on 5 July 2001. The primary asset of the Value Ahead Group relates to a property development project located in a region designated by the Chinese and Russian governments for the development of cross-border commerce and tourism between the PRC and Russian Federation and which is planned to include a mixture of residential, hotel, commercial and retail space and warehousing, logistics and leisure and entertainment facilities.

Chinese border of the Intertrading Zone

Pursuant to an agreement dated 19 January 2004 entered into between the Municipal Government of Suifenhe and Shanghai Shimao Jianshe Co., Ltd ("Shimao Jianshe"), a company beneficially and wholly owned by Mr. Hui, Chairman of Shimao China, the Municipal Government of Suifenhe agreed that Shimao Jianshe shall have the contractual right to acquire 153 hectares (equivalent to 1,530,000 sq.m.) of land which comprises two parcels of land with a total area of 722,841.5 sq.m. (the "First Phase Land") and the remaining portion of a land with a site area of approximately 807,175 sq.m. (the "Second Phase Land") for the exclusive development of the Pogranichy-Suifenhe Intertrading Economic Zone (the "Intertrading Zone") on the Chinese border of the Municipality of Suifenhe for a consideration of HK\$117,925,000. Pursuant to a transfer agreement dated 21 October 2004 entered into among the Municipal Government of Suifenhe, Shimao Jianshe and Suifenhe Shimao, all the rights and obligations of Shimao Jianshe relating to the agreement dated 19 January 2004 were transferred to Suifenhe Shimao. The cost of this transfer to Suifenhe Shimao was HK\$117,925,000, which was apportioned as to HK\$55,712,000 to the First Phase Land and as to HK\$62,213,000 to the Second Phase Land.

The first phase of development on the Chinese border of the Intertrading Zone

For the purpose of the first phase of development on the Chinese border of the Intertrading Zone, Suifenhe Shimao had paid the land premium as stipulated in the land grant contracts with relevant governmental authority of the Municipality of Suifenhe and acquired the First Phase Land at a consideration of HK\$126,345,000. The land use rights of the property have already been granted by Suifenhe Land Bureau. According to the confirmation from Suifenhe Land Bureau, the above land grant is authorised by Heilongjiang Land Bureau and Suifenhe Land Bureau has already submitted a formal application for the above land grant to Heilongjiang Land Bureau for approval. There should be no legal impediment in obtaining such permission, however, the expected date of approval is uncertain.

The first phase of development includes Shimao International Commercial and Exhibition Centre (Phase I) and a five-star hotel, whereas the remaining portion of the areas are held for future development. Construction of Shimao International Commercial Centre (Phase I) and the five-star hotel are in progress and are scheduled to be completed in May 2006 and December 2006 respectively.

The second phase of development on the Chinese border of the Intertrading Zone

There is no specific time limit for the contractual right to acquire the Second Phase Land. It is the intention of the directors that, after completion of the construction of the Shimao International Commercial and Exhibition Centre (Phase I) and the five-star hotel, the Group will proceed to negotiate with the relevant governmental authority of the Municipality of Suifenhe in relation to the acquisition of the Second Phase Land and make payment for the required land premium for the acquisition of the land. The land premium for the acquisition of the land use rights has yet to be negotiated.

Russian border of the Intertrading Zone

On 16 June 2004, Suifenhe Shimao also entered into a co-operative agreement (the "Co-operative Agreement") with Coastal Information Analysis Closed-end Stock Company Limited (the "Russian Party"), which is a company established in the Russian Federation, for the purpose of laying down the scope and principles of developing across the national boundary between the Municipality of Progranichny in Russia and the Municipality of Suifenhe in the PRC. As stated in recitals of the Co-operative Agreement, Suifenhe Shimao and the Russian Party have entered into agreements with the PRC government and Russian government respectively for the acquisition of the respective right of the land for exclusive development in the Intertrading Zone. Pursuant to the terms of the Co-operative Agreement, Suifenhe Shimao shall be responsible for carrying out property design and development for a site area of 153 hectares (equivalent to 1,530,000 sq.m.) of land on the Chinese border of the Intertrading Zone while the Russian Party will contribute at its costs for 300 hectares (equivalent to 3,000,000 sq.m.) of land on the Russian border of the Intertrading Zone representing around 66% of the total site area of the Intertrading Zone. It is expected that all the construction and development costs of the properties in the Russian border of the Intertrading Zone will be contributed by Suifenhe Shimao.

Under the Co-operative Agreement, Suifenhe Shimao and the Russian Party will be entitled to (i) 90% and 10% interest in Shimao International Commercial and Exhibition Centre (Phase I) on the Chinese border respectively; and (ii) 80% and 20% interest in the multi-function complex and the casino hotel on the Russian border respectively, and (iii) 90% and 10% interest in the medical centre and the financial centre on the Russian border respectively. The entitlement of the Russian Party to these interests will be subject to further negotiations and agreements with Suifenhe Shimao. The development plan as stipulated in the Co-operative Agreement has yet to be concluded and will be subject to further negotiation and entry of agreements with the Russian Party. It is the intention of the directors that Suifenhe Shimao and the Russian Party will establish investment holding companies under the Russian laws ("Russian joint venture companies") to hold the property interests and to engage in the operation of the casino hotel on the Russian border of the Intertrading Zone. Since the investments in Russian joint venture companies constitute overseas investment, Suifenhe Shimao as a company established in the PRC will be required to obtain approvals from relevant governmental authorities of the PRC.

Given that the establishment of the Russian joint venture companies is in a preliminary stage, no approval has been obtained from the relevant governmental authority of Russian Federation. Suifenhe Shimao has yet to discuss and conclude the details of the Russian joint venture companies with the Russian Party. As no terms have been concluded and no agreement has been reached at this stage, the establishment of the Russian joint venture companies for the purpose of joint project development in the Intertrading Zone as contemplated in the Co-operative Agreement may or may not materialise.

2. Principal accounting policies

The Financial Information has been prepared in accordance with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical convention. In preparing the Financial Information, Hong Kong Financial Reporting Standard (the "HKFRS") 1 "First-time Adoption of Hong Kong Financial Reporting Standards" has been applied.

The HKICPA has issued a number of new and revised HKFRS and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. For the purpose of this report, the Value Ahead Group has not early adopted these new HKFRSs in the preparation of the Financial Information. The Value Ahead Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The principal accounting policies adopted in the preparation of the Financial Information are set out below.

(a) *Group accounting*

The consolidated financial information includes the accounts of Value Ahead and its subsidiaries made up to year ended 31 December.

Subsidiaries are those entities in which Value Ahead directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Value Ahead Group's share of its net assets together with the unamortised goodwill or negative goodwill and related accumulated foreign currency translation reserve, if any.

All significant intercompany transactions and balances within the Value Ahead Group are eliminated on consolidation.

In Value Ahead's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by Value Ahead on the basis of dividends received and receivable.

(b) *Fixed assets*

(i) Hotel under construction

Hotel under construction is carried at cost which includes acquisition costs of land use rights, construction costs and interest costs on borrowings to finance the construction of the properties and other costs directly attributable to the development less any accumulated impairment losses. No depreciation is provided.

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of other fixed assets is calculated to write off the cost of the assets less accumulated impairment losses on a straight line basis over their estimated useful lives as follows:

Leasehold improvements	5 years or over the relevant lease periods
Computer equipment	5 years
Furniture and office equipment	5 years
Motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Value Ahead Group. The carrying amounts of fixed assets are reviewed regularly. At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(c) *Properties held for development*

Properties held for development are stated at cost less accumulated impairment losses. Cost comprises acquisition costs of land use rights, construction costs and other costs directly attributable to the construction of the properties.

(d) *Properties under development for sale*

Properties under development for sale are stated at the lower of cost and net realisable value. Cost comprises acquisition costs of land use rights, construction costs, interest costs on borrowings to finance the construction of the properties and other costs directly attributable to the construction of the properties.

Net realisable value is determined by reference to management's estimates based on prevailing market conditions less costs to be included in completing and selling the property.

(e) *Provisions*

Provisions are recognised when the Value Ahead Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Value Ahead Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(f) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(g) *Revenue recognition*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rate applicable.

Dividend income is recognised when the right to receive payment is established.

(h) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable under such operating leases, net of incentives received from the lessors, are charged to the profit and loss account on a straight line basis over the periods of the leases.

(i) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising therefrom are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

3. Segmental information

The Value Ahead Group generated neither turnover nor profit from property investment and development during the Relevant Periods. The principal assets employed by the Value Ahead Group are located in the PRC. Accordingly, no segmental analysis by business and geographical segments is presented for the Relevant Periods.

4. Other revenue

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Interest income	–	–	49
	<u>–</u>	<u>–</u>	<u>49</u>

5. (Loss)/profit for the year

(Loss)/profit for the year is stated after crediting and charging the following:

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Crediting			
Gain on disposal of a subsidiary	–	20	–
Exchange gain	–	–	5
Charging			
Staff costs (<i>Note</i>)	–	–	379
Depreciation	–	–	117
Operating lease rentals in respect of land and buildings	–	–	84
Auditors' remuneration	–	–	47
	<u>–</u>	<u>–</u>	<u>47</u>

Note: Staffs of the Value Ahead Group who rendered accountancy, project and office administration work are currently under either probation or temporary employment. No retirement benefits were entitled by these employees during the Relevant Periods.

6. Taxation

No provision for Hong Kong profits tax has been made within the Value Ahead Group as the Value Ahead Group has no assessable profit in Hong Kong for the Relevant Periods.

The subsidiary operating in the Mainland China, Suifenhe Shimao, is a foreign investment enterprise and subject to PRC income tax of 33%. It was granted an 3% exemption from PRC income tax for 10 years starting from its first profit-making year in accordance with the relevant tax rules and regulation applicable to foreign investment enterprises in the Province of Heilongjiang. No PRC income tax has been provided by Suifenhe Shimao as it has no assessable profit for the Relevant Periods.

The taxation on the Value Ahead Group's (loss)/profit for the Relevant Periods differs from the theoretical amount that would arise using the applicable tax rate in the PRC in which the Value Ahead Group operates, as follows:

	Year ended 31 December		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
(Loss)/profit for the year	(14)	12	(3,899)
Tax calculated at applicable tax rate of 30%	(4)	4	(1,170)
Effect of different tax rate	2	(2)	-
Income not subject to taxation	-	(4)	-
Temporary differences not recognised	2	2	15
Tax losses not recognised	-	-	1,155
Taxation charge	-	-	-

As at 31 December 2002, 2003 and 2004, the deferred tax assets of HK\$Nil, HK\$Nil and HK\$1,155,000 arising from unused tax losses of HK\$Nil, HK\$Nil and HK\$3,850,000 have not been recognised by the Value Ahead Group. These unused tax losses will expire after five years starting from the commencement of operation.

As at 31 December 2002, 2003 and 2004, Value Ahead did not have any other material deferred tax assets or liabilities.

7. (Loss)/profit attributable to shareholder

The (loss)/profit attributable to shareholder is dealt with the accounts of Value Ahead to the extent of a loss of HK\$6,000, HK\$4,000 and HK\$3,000 for the years ended 31 December 2002, 2003 and 2004.

8. (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on the loss of HK\$14,000, earnings of HK\$12,000 and loss of HK\$3,899,000 and the one share in issue during the Relevant Periods.

No diluted earnings per share has been presented as there are no potential dilutive shares.

9. Directors' and senior management's emoluments

(a) Directors' emoluments

The directors of Value Ahead did not receive any remuneration in respect of their services rendered to the Value Ahead Group during the Relevant Periods.

No directors of Value Ahead waived or agreed to waive any remuneration during the Relevant Periods.

(b) *Five highest paid individuals*

The five individuals (currently under either probation or temporary employment) whose emoluments were the highest in the Value Ahead Group for the Relevant Periods were as follows:

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Basic salaries	-	-	145

The emoluments fell within the following bands:

Emolument bands	Number of individuals		
	As at 31 December		
	2002	2003	2004
HK\$nil-HK\$500,000	-	-	5

No emoluments were paid by the Value Ahead Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Value Ahead Group or as compensation for loss of office during the Relevant Periods.

10. Fixed assets

The Value Ahead Group

	Hotel under construction <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 1 January 2002, 2003 and 2004	-	-	-	-	-	-
Additions	27,959	170	329	485	500	29,443
At 31 December 2004	27,959	170	329	485	500	29,443
Accumulated depreciation						
At 1 January 2002, 2003 and 2004	-	-	-	-	-	-
Charge for the year	-	56	20	23	18	117
At 31 December 2004	-	56	20	23	18	117
Net book value						
At 31 December 2004	27,959	114	309	462	482	29,326
At 31 December 2003	-	-	-	-	-	-
At 31 December 2002	-	-	-	-	-	-

Note: Hotel under construction represents the costs incurred for the five-star hotel (Note 1) and is stated at cost and held in the PRC under medium term lease.

11. Properties held for development

	The Value Ahead Group As at 31 December		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Medium term leasehold land, at cost	-	-	168,455
Development and incidental costs	-	-	8,112
	-	-	176,567

The balance represents the undeveloped portion of the First Phase Land (Note 1).

12. Other non-current asset

The balance represents amount paid to Municipal Government of Suifenhe in respect of the Second Phase Land (Note 1). Upon acquisition of land use rights, this amount will be reclassified to the land costs of the respective property development projects.

13. Subsidiaries

	Value Ahead		
	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Unlisted investment, at cost	—	—	205,431
	<u> </u>	<u> </u>	<u> </u>

Particulars of the subsidiaries directly held by Value Ahead during the Relevant Periods are as follows:

Company name	Place of incorporation	Date of incorporation/ establishment	Legal status	Issued/registered and fully paid capital	Direct effective interest held			Principal activities
					2002	2003	2004	
Everactive Properties Limited ("Everactive Properties") (Note (a))	The British Virgin Islands	2 May 2001	Limited liability company	1 ordinary share of US\$1	100%	—	—	Inactive
綏芬河世茂開發建設有限公司 Suifenhe Shimao Development & Construction Co., Ltd. ("Suifenhe Shimao") (Note (b))	The PRC	13 April 2004	Foreign investment enterprise	Registered capital US\$29,800,000	—	—	100%	Property investment and development

Note:

- (a) Everactive Properties was acquired at a consideration of US\$1 in 2001 and was subsequently disposed of to a related company, wholly-owned by Mr. Hui Wing Mau, in 2003, resulting in a gain on disposal of approximately HK\$20,000. No audited accounts have been prepared for Everactive Properties since the date of its incorporation since there are no statutory requirements for an entity incorporated in the BVI to prepare audited accounts.
- (b) 哈爾濱世紀天誠會計事務所 was appointed as the auditors of Suifenhe Shimao.
- (c) The amount due to a subsidiary is unsecured, interest free and has no fixed repayment terms.

14. Properties under development for sale

	The Value Ahead Group		
	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Medium term leasehold land, at cost	—	—	10,525
Development and incidental costs	—	—	51,064
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

The balance represents costs incurred for the Shimao International Commercial and Exhibition Centre (Phase 1) (Note 1).

15. Amount due to immediate holding company

The balance is unsecured, interest free and has no fixed repayment terms.

16. Amounts due to related companies

	As at 31 December		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
The Value Ahead Group			
Common directors			
Shanghai Shimao Enterprise Development Limited	–	–	22,642
Perfect Zone International Limited	14	10	–
OIG (Hong Kong) Limited	14	5	–
	<u>28</u>	<u>15</u>	<u>22,642</u>

The balances are unsecured, interest free and have no fixed repayment terms.

	As at 31 December		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Value Ahead			
Common directors			
Perfect Zone International Limited	5	10	–
OIG (Hong Kong) Limited	6	5	–
	<u>11</u>	<u>15</u>	<u>–</u>

The balances are unsecured, interest free and have no fixed repayment terms.

17. Amount received from Suifenhe Land Resource Department

The balance is unsecured, interest free and repayable on demand.

18. Share capital

Value Ahead

	As at 31 December		
	2002 '000	2003 '000	2004 '000
<i>Authorised:</i>			
50,000 ordinary shares of US\$1 each	US\$ <u>50</u>	<u>50</u>	<u>50</u>
<i>Issued and fully paid:</i>			
1 ordinary share of US\$1	HK\$ <u>–</u>	<u>–</u>	<u>–</u>

Upon the incorporation on 5 July 2001, Value Ahead's authorised share capital was US\$50,000 divided into 50,000 ordinary shares of US\$1 each, of which one subscriber share was issued and allotted at par for cash.

19. Reserves

The Value Ahead Group

	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2001	–	(13)	(13)
Loss for the year	–	(14)	(14)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	–	(27)	(27)
Profit for the year	–	12	12
	<hr/>	<hr/>	<hr/>
At 31 December 2003	–	(15)	(15)
Loss for the year	–	(3,899)	(3,899)
Translation difference	294	–	294
	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>294</u>	<u>(3,914)</u>	<u>(3,620)</u>

Value Ahead

	Accumulated losses <i>HK\$'000</i>
At 31 December 2001	(5)
Loss for the year	(6)
	<hr/>
At 31 December 2002	(11)
Loss for the year	(4)
	<hr/>
At 31 December 2003	(15)
Loss for the year	(3)
	<hr/>
At 31 December 2004	<u>(18)</u>

Note: Value Ahead had no distributable reserve as at 31 December 2002, 2003 and 2004.

20. Amount received from Suifenhe Land Reserve Centre

Pursuant to two agreements dated 18 March 2004 and 21 July 2004 between the Value Ahead Group and Suifenhe Land Reserve Centre ("SLRC") (the "Ancillary Facilities Agreements"), the Value Ahead Group was appointed to construct the ancillary facilities and infrastructure surrounding the area of the Intertrading Zone on behalf of the Municipality of Suifenhe. Balances of HK\$94,340,000 and HK\$22,467,000 were received in advance from SLRC on 19 March 2004 and 21 July 2004 respectively, which are non interest bearing. The development costs incurred for the ancillary facilities and surrounding infrastructure will be reimbursed on an actual basis against the advances received up to a total of HK\$116,807,000. Any shortfall will be borne by the Value Ahead Group while any surplus will be refunded to SLRC. The actual reimbursement will be fixed with SLRC upon completion of the ancillary facilities and surrounding infrastructure.

In the opinion of the directors, the total costs required for the construction of the ancillary facilities and surrounding infrastructure are estimated at approximately HK\$121,792,000. This estimation will be revised on a timely basis as more construction contracts are entered into and the development progresses. Up to 31 December 2004, the construction costs incurred amounted to approximately HK\$283,000.

21. Notes to the consolidated cash flow statements

(a) Reconciliation of (loss)/profit for the year to net cash used in operations

	Year ended 31 December		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
(Loss)/profit for the year	(14)	12	(3,899)
Depreciation	-	-	117
Gain on disposal of a subsidiary	-	(20)	-
Interest income	-	-	(49)
	<u>-</u>	<u>-</u>	<u>-</u>
Loss before working capital changes	(14)	(8)	(3,831)
Increase in other non-current asset	-	-	(62,213)
Increase in properties held for/under development for sale	-	-	(237,862)
Increase in other receivables, deposits and prepayments	-	-	(332)
Increase in other payables and accruals	-	-	18,996
Increase in advanced proceeds received from customers	-	-	4,355
Increase in amount received from Suifenhe Land Resource Department	-	-	6,318
Increase in amount received from Suifenhe Land Reserve Centre	-	-	116,807
Increase in amounts due to related companies	13	8	22,627
	<u>13</u>	<u>8</u>	<u>22,627</u>
Net cash used in operations	<u>(1)</u>	<u>-</u>	<u>(135,135)</u>

(b) Disposal of a subsidiary

	Year ended 31 December		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Net assets disposed of:			
Bank balances and cash	-	1	-
Amount due to related companies	-	(21)	-
	<u>-</u>	<u>(20)</u>	<u>-</u>
Gain on disposal of a subsidiary	-	20	-
	<u>-</u>	<u>20</u>	<u>-</u>
Consideration satisfied by cash	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Cash consideration	-	-	-
Bank balances and cash disposed of	-	(1)	-
	<u>-</u>	<u>(1)</u>	<u>-</u>

22. Commitments**The Value Ahead Group***(a) Capital expenditure commitments*

	As at 31 December		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Authorised but not contracted for	-	-	176,981
Contracted but not provided for	-	-	13,145
	<u>-</u>	<u>-</u>	<u>190,126</u>

The balance represents the capital commitment of the five-star hotel under construction (Note 1).

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	As at 31 December		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Within one year	-	-	119

Value Ahead

Value Ahead had no capital expenditure nor operating lease commitments during the Relevant Periods.

23. Related party transactions

Related companies as referred to in note 16 are those companies which are controlled and/or beneficially owned by certain directors of Value Ahead.

During the Relevant Periods, certain staff of related companies rendered project management and administrative services to the Value Ahead Group at nil consideration.

24. Subsequent accounts

No audited accounts have been prepared for Value Ahead and any of the companies comprising the Value Ahead Group in respect of any period subsequent to 31 December 2004 and no dividends or other distributions have been declared by Value Ahead or any of its subsidiaries in respect of any period subsequent to 31 December 2004.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated profit and loss accounts and the consolidated balance sheet of the Group for the three years ended 31 December 2004:

RESULTS

	2004	2003	As restated 2002
	HK\$'000	HK\$'000	HK\$'000
Turnover			
Company and subsidiaries	6,612	8,334	17,064
Share of an associated company/ a jointly controlled entity	598,094	570,707	90,426
	<u>604,706</u>	<u>579,041</u>	<u>107,490</u>
Company and subsidiaries			
Turnover	6,612	8,334	17,064
Cost of sales	(1,117)	(79)	(13,863)
	<u>5,495</u>	<u>8,255</u>	<u>3,201</u>
Gross profit	5,495	8,255	3,201
Other operating income	2,154	5,851	6,325
Selling expenses	–	–	(390)
Provision for properties under development	–	–	(107,309)
Write-down of completed properties held for sale	–	–	(15,210)
Revaluation deficit on leasehold land and buildings	–	–	(12,349)
Administrative expenses	(39,418)	(26,877)	(27,841)
Other operating expenses	–	(125)	(2,053)
	<u>(31,769)</u>	<u>(12,896)</u>	<u>(155,626)</u>
Operating loss before financing	(31,769)	(12,896)	(155,626)
Finance costs	(3,516)	(4,811)	(7,670)
Share of profit of an associated company/a jointly controlled entity	200,030	192,610	3,101
	<u>164,745</u>	<u>174,903</u>	<u>(160,195)</u>
Profit/(loss) before taxation	164,745	174,903	(160,195)
Taxation	(32,106)	(30,629)	(2,117)
	<u>132,639</u>	<u>144,274</u>	<u>(162,312)</u>
Profit/(loss) attributable to shareholders	132,639	144,274	(162,312)
Earnings/(loss) per share	<u>HK16.0 cents</u>	<u>HK17.4 cents</u>	<u>HK(21.6) cents</u>

Consolidated Balance Sheets

	2004	2003	As restated 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets	607,188	530,265	450,271
Associated company/jointly controlled entity	293,103	236,286	72,886
Properties under development	–	–	76,950
	<u>900,291</u>	<u>766,551</u>	<u>600,107</u>
Current assets	<u>183,357</u>	<u>148,178</u>	<u>110,343</u>
Current liabilities	<u>211,947</u>	<u>144,845</u>	<u>38,444</u>
Net current (liabilities)/assets	<u>(28,590)</u>	<u>3,333</u>	<u>71,899</u>
	<u>871,701</u>	<u>769,884</u>	<u>672,006</u>
Capital and reserves			
Share capital	82,764	82,764	82,498
Reserves	<u>606,697</u>	<u>457,306</u>	<u>257,515</u>
Shareholders' funds	<u>689,461</u>	<u>540,070</u>	<u>340,013</u>
Non-current liabilities			
Long-term bank loans	148,517	158,550	171,617
Promissory notes	–	40,000	130,000
Deferred taxation	<u>33,723</u>	<u>31,264</u>	<u>30,376</u>
	<u>182,240</u>	<u>229,814</u>	<u>331,993</u>
	<u>871,701</u>	<u>769,884</u>	<u>672,006</u>

2. AUDITED FINANCIAL STATEMENTS

The following is an extract of the audited financial statements of the Group from the annual reports of the Company for the year ended 31 December 2004:

Consolidated Profit and Loss Account

For the year ended 31st December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover			
Company and subsidiaries	2	6,612	8,334
Share of an associated company/ a jointly controlled entity		598,094	570,707
		<u>604,706</u>	<u>579,041</u>
	2	<u>604,706</u>	<u>579,041</u>
Company and subsidiaries			
Turnover		6,612	8,334
Cost of sales		(1,117)	(79)
		<u>5,495</u>	<u>8,255</u>
Gross profit		5,495	8,255
Other operating income		2,154	5,851
Administrative expenses		(39,418)	(26,877)
Other operating expenses		–	(125)
		<u>(31,769)</u>	<u>(12,896)</u>
Operating loss before financing	3	(31,769)	(12,896)
Finance costs	4	(3,516)	(4,811)
Share of profit of an associated company/a jointly controlled entity		200,030	192,610
		<u>164,745</u>	<u>174,903</u>
Profit before taxation		164,745	174,903
Taxation	7	(32,106)	(30,629)
		<u>132,639</u>	<u>144,274</u>
Profit attributable to shareholders		<u>132,639</u>	<u>144,274</u>
Dividend	9	41,382	49,658
		<u>41,382</u>	<u>49,658</u>
Earnings per share	10	HK16.0 cents	HK17.4 cents
		<u>HK16.0 cents</u>	<u>HK17.4 cents</u>

Consolidated Balance Sheet*As at 31st December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Fixed assets	<i>11</i>	607,188	530,265
Associated company	<i>12</i>	293,103	–
Jointly controlled entity	<i>12</i>	–	236,286
		<hr/>	<hr/>
		900,291	766,551
		<hr/>	<hr/>
Current assets			
Completed properties held for sale	<i>13</i>	142,508	–
Properties under development	<i>13</i>	–	98,792
Trade receivables	<i>15</i>	104	2,885
Prepayments, deposits and other receivables		22,386	20,999
Bank balances and cash		18,359	25,502
		<hr/>	<hr/>
		183,357	148,178
		<hr/>	<hr/>
Current liabilities			
Trade payables	<i>16</i>	4,086	2,075
Other payables and accruals		16,485	11,953
Amount due to ultimate holding company	<i>17</i>	99,369	64,644
Amounts due to related companies	<i>17</i>	4,104	51,502
Current portion of long-term bank loans	<i>18</i>	13,133	13,067
Short-term bank loans, secured		34,770	1,604
Promissory notes	<i>21</i>	40,000	–
		<hr/>	<hr/>
		211,947	144,845
		<hr/>	<hr/>
Net current (liabilities)/assets		(28,590)	3,333
		<hr/>	<hr/>
		871,701	769,884
		<hr/> <hr/>	<hr/> <hr/>

Consolidated Balance Sheet*As at 31st December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Capital and reserves			
Share capital	19	82,764	82,764
Reserves	20	606,697	457,306
		<u>689,461</u>	<u>540,070</u>
Shareholders' funds		----- 689,461	----- 540,070
Non-current liabilities			
Long-term bank loans	18	148,517	158,550
Promissory notes	21	-	40,000
Deferred taxation	22	33,723	31,264
		<u>182,240</u>	<u>229,814</u>
		----- <u>871,701</u>	----- <u>769,884</u>

Balance Sheet*As at 31st December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Subsidiaries	14	486,287	394,281
Current assets			
Prepayment, deposits and other receivables		21,726	20,587
Bank balances and cash		16,545	3,332
		38,271	23,919
Current liabilities			
Other payables and accruals		3,202	2,281
Amount due to ultimate holding company	17	99,369	64,644
Promissory note	21	10,000	–
		112,571	66,925
Net current liabilities		(74,300)	(43,006)
		411,987	351,275
Capital and reserves			
Share capital	19	82,764	82,764
Reserves	20	329,223	258,511
Shareholders' funds		411,987	341,275
Non-current liabilities			
Promissory note	21	–	10,000
		411,987	351,275

Consolidated Statement of Changes in Equity*For the year ended 31st December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total equity as at 1st January		540,070	340,013
Net gain not recognised in the profit and loss account			
Revaluation surplus of investment properties, net of taxation	20	66,410	55,001
Profit for the year		132,639	144,274
Payment of special dividend	20	(49,658)	–
Exercise of warrants		–	782
		<hr/>	<hr/>
Total equity as at 31st December		<u>689,461</u>	<u>540,070</u>

Consolidated Cash Flow Statement*For the year ended 31st December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating activities			
Net cash used in operations	25(a)	(66,083)	(27,352)
Taxation paid		(145)	(936)
Interest received		2	562
Interest paid		(4,116)	(6,000)
Net cash used in operating activities		<u>(70,342)</u>	<u>(33,726)</u>
Investing activities			
Repayment of loan to jointly controlled entity		–	76,316
Additions to investment properties		(7,790)	(24,258)
Purchases of other fixed assets		(3,087)	(3,011)
Dividend received from a jointly controlled entity		113,208	–
Net cash from investing activities		<u>102,331</u>	<u>49,047</u>
Net cash inflow before financing		<u>31,989</u>	<u>15,321</u>
Financing activities	25(b)		
New bank loan drawn		34,204	–
Repayment of long-term bank loans		(11,005)	(14,038)
Repayment of promissory notes		–	(90,000)
Advance from ultimate holding company (Repayment of)/advance from related companies		34,725	60,443
		(47,398)	42,075
Exercise of warrants		–	782
Dividend paid		(49,658)	–
Net cash used in financing activities		<u>(39,132)</u>	<u>(738)</u>
(Decrease)/increase in cash and cash equivalents		(7,143)	14,583
Cash and cash equivalents at beginning of year		<u>25,502</u>	<u>10,919</u>
Cash and cash equivalents at end of year		<u><u>18,359</u></u>	<u><u>25,502</u></u>
Analysis of balances of cash and cash equivalents			
Bank balances and cash		<u><u>18,359</u></u>	<u><u>25,502</u></u>

Notes to the Accounts

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at valuation.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact on these new HKFRSs but is not yet in position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any goodwill or capital reserve taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company’s balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activities of the entity.

The consolidated profit and loss account includes the Group’s share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(iii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised through representatives on the board of directors and there is no contractual arrangement to establish joint control over the economic activities of the company.

The consolidated profit and loss account includes the Group's share of results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(c) Fixed assets*(i) Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

The investment properties are stated at open market value based on an annual professional valuation at the balance sheet date. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to profit and loss account. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

No depreciation is provided on investment properties held on leases of more than twenty years.

(ii) Other fixed assets

Other fixed assets, including other properties which are interests in land and buildings other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated to write off the cost of assets over their estimated useful lives, using the straight line method. Estimated useful lives are summarised as follows:

Land held on long or medium term leases	Unexpired period of the lease
Buildings	Shorter of the lease or 50 years
Leasehold improvements	5 years or over the relevant lease period
Furniture, office equipment and motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives. The carrying amounts of fixed assets are reviewed regularly. When the recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amount. Expected future cash flows have been discounted in determining the recoverable amount.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amounts of the assets and are dealt with in the profit and loss account.

(d) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(e) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(f) Properties under development

Properties under development are stated at cost less provision for any foreseeable loss. Cost comprises land cost, development expenditure, professional fees and interest capitalised.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(i) Employee benefits*(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Pension obligations

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(j) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable to such operating leases, net of incentives received from the lessors, are charged to the profit and loss account on a straight line basis over the periods of the leases.

(l) Revenue recognition

The recognition of revenue and profits from the sale of properties under development in advance of completion commences when a legally binding contract of sale has been executed and when the total construction costs of the properties under development can be reliably estimated. Profit is recognised over the course of the development and is computed each year as a proportion of the total estimated profit to completion; the proportion used being the actual construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowances for contingencies). The profit so recognised is restricted to the amount of sales proceeds received from each sale contract.

Sales proceeds received are initially recorded as advanced proceeds received from customers under current liabilities. Upon the recognition of sales based on the percentage of completion of the relevant properties, the amount of sales proceeds received that should be recognised as income are transferred to progress revenue received under properties under development.

Sales of completed properties are recognised upon completion of the sales and purchase contracts.

Rental income is recognised on a straight line accrual basis over the terms of lease agreements or on a specified basis according to the terms of lease agreements.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(m) Capitalisation of interest and finance charges

Interest and finance charges on borrowings relating to properties under development are included in the cost of the development during the period of development. All other borrowing costs are expensed in the profit and loss account in the year in which they are incurred.

(n) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

2. Turnover and segment information

(a) Turnover

The Group is principally engaged in property investment and development of property projects in Hong Kong and the Mainland China. Turnover comprises gross proceeds from sales of properties and revenue from rental operation.

	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries		
Rental income	6,612	8,334
Share of an associated company/a jointly controlled entity		
Sales of properties	598,094	570,707
	<u>604,706</u>	<u>579,041</u>

(b) Segment information

For management purposes, the Group is organised into two operating businesses – property development and property investment. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Business segments**Results**

Year ended 31st December 2004	Property development HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment turnover			
Company and subsidiaries	–	6,612	6,612
Share of an associated company	598,094	–	598,094
	<u>598,094</u>	<u>6,612</u>	<u>604,706</u>
Segment results	<u>(4,388)</u>	<u>4,497</u>	109
Other operating income			2,154
Corporate administrative expenses			<u>(34,032)</u>
Operating loss before financing			(31,769)
Finance costs			(3,516)
Share of profit of an associated company	200,030	–	<u>200,030</u>
Profit before taxation			164,745
Taxation			<u>(32,106)</u>
Profit attributable to shareholders			<u>132,639</u>

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Corporate items <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital expenditure	–	12,087	3,687	15,774
Depreciation	–	–	5,721	5,721
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Year ended 31st December 2003		Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment turnover				
Company and subsidiaries		–	8,334	8,334
Share of a jointly controlled entity		570,707	–	570,707
		<u> </u>	<u> </u>	<u> </u>
		570,707	8,334	579,041
		<u> </u>	<u> </u>	<u> </u>
Segment results		(948)	5,449	4,501
		<u> </u>	<u> </u>	<u> </u>
Other operating income				5,851
Corporate administrative expenses				(23,248)
				<u> </u>
Operating loss before financing				(12,896)
Finance costs				(4,811)
Share of profit of a jointly controlled entity		192,610	–	192,610
				<u> </u>
Profit before taxation				174,903
Taxation				(30,629)
				<u> </u>
Profit attributable to shareholders				144,274
				<u> </u>
	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Corporate items <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital expenditure	–	24,258	3,011	27,269
Depreciation	–	–	2,276	2,276
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Balance sheet

As at 31st December 2004	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets			
Segment assets	142,508	226,563	369,071
Associated company	293,103	–	293,103
Unallocated corporate assets			421,474
			<u>1,083,648</u>

Liabilities

Segment liabilities	79,992	12,653	92,645
Unallocated corporate liabilities			301,542
			<u>394,187</u>

Balance sheet

As at 31st December 2003	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets			
Segment assets	98,792	482,370	581,162
Jointly controlled entity	236,286	–	236,286
Unallocated corporate assets			97,281
			<u>914,729</u>

Liabilities

Segment liabilities	38,420	215,274	253,694
Unallocated corporate liabilities			120,965
			<u>374,659</u>

Geographical segments

The Group's operations are mainly located in Hong Kong and the Mainland China.

All the turnover of the Group were derived in the Mainland China.

The following is an analysis of the segment results, carrying amount of segment assets, and capital expenditure analysed by the geographical area in which the assets are located:

Year ended 31st December 2004

	Segment results <i>HK\$'000</i>	Segment assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	(39,935)	564,092	11,452
Mainland China	172,574	519,556	4,322
	<u>132,639</u>	<u>1,083,648</u>	<u>15,774</u>

Year ended 31st December 2003

	Segment results <i>HK\$'000</i>	Segment assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	(26,555)	461,428	3,011
Mainland China	170,829	453,301	24,258
	<u>144,274</u>	<u>914,729</u>	<u>27,269</u>

3. Operating loss before financing

2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>

Operating loss before financing is stated after crediting and charging the following:

Crediting

Gross rental income from investment properties	6,612	8,334
Interest income	2	562
	<u>6,612</u>	<u>8,896</u>

Charging

Staff costs (including directors' emoluments)		
Salaries and other benefits	15,732	14,139
Contribution to retirement benefits schemes	233	205
	<u>15,965</u>	<u>14,344</u>
Depreciation	5,721	2,276
Operating lease rentals in respect of land and buildings	–	884
Auditors' remuneration	460	435
Outgoings in respect of investment properties	785	79
	<u>22,931</u>	<u>17,927</u>

Generally, the Group's operating leases are for terms of within one year except for three (2003: one) long-term leases which are beyond five years. There is no contingent rent included in rental income for both years.

	2004 HK\$'000	2003 HK\$'000
The future minimum rental income receivable under non-cancellable leases are as follows:		
Within one year	8,085	6,794
Between two and five years	23,882	25,380
Beyond five years	28,827	3,956
	<u>60,794</u>	<u>36,130</u>

4. Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans	3,514	5,091
Interest on promissory notes wholly repayable within five years	602	909
	<u>4,116</u>	<u>6,000</u>
Amount capitalised in properties under development	(600)	(1,189)
	<u>3,516</u>	<u>4,811</u>

5. Retirement benefits schemes

The Group has operated a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong since 1st December 2000. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

The Group also contributes to retirement plans for its employees in the Mainland China at a percentage in compliance with the requirements of the respective municipal governments in the People's Republic of China ("PRC").

The assets of all retirement schemes are held separately from those of the Group in independently administered funds. The total cost charged to the profit and loss account amounts to HK\$233,000 (2003: HK\$205,000).

6. Directors' and senior management's remuneration

(a) Details of the directors' emoluments are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	7,866	6,827
Salaries and other emoluments	2,148	–
Contribution to retirement benefits scheme	49	48
	<u>10,063</u>	<u>6,875</u>

The emoluments of the directors are within the following bands:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	9	2
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	2	3
HK\$2,000,001 – HK\$2,500,000	1	–
	9	6

Fees include HK\$300,000 paid to independent non-executive directors during the year (2003: HK\$120,000). There were no other emoluments paid to independent non-executive directors during the year (2003: Nil).

None of the directors has waived his right to receive his emoluments (2003: Nil).

- (b) Of the five individuals with the highest emoluments in the Group, all (2003: four) are directors of the Company, whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one highest paid individual in 2003 were as follows:

	<i>HK\$'000</i>
Salaries and other benefits	650
Contribution to retirement benefits scheme	12
	662

7. Taxation

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Income tax in the PRC		
Current		
Company and subsidiaries	145	531
Deferred		
Company and subsidiaries	1,956	888
An associated company/a jointly controlled entity	30,005	29,210
	32,106	30,629

No provision for Hong Kong profits tax has been made within the Group as the Group has no assessable profit in Hong Kong for the year (2003: Nil). PRC income tax has been provided on the estimated assessable profits of subsidiaries operating in the PRC at the applicable rate of taxation.

The Group's associated company/jointly controlled entity established in the Pudong New Area of the PRC is required to pay income tax at a preferential rate of 15% (2003: 15%).

The tax of the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rates, being the weighted average of rates prevailing in the provinces in the PRC in which the Group operates, as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	164,745	174,903
Tax calculated at applicable tax rates	24,848	26,729
Tax losses not recognised	7,291	4,582
Utilisation of previously unrecognised tax losses	(1,014)	(1,328)
Other items	981	646
Taxation charge	<u>32,106</u>	<u>30,629</u>

8. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$120,370,000 (2003: HK\$7,588,000).

9. Dividend

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Special, paid, of HK\$0.06 per ordinary share	–	49,658
Proposed, final, of HK\$0.05 (2003: Nil) per ordinary share	41,382	–
	<u>41,382</u>	<u>49,658</u>

A special dividend of HK\$0.06 per ordinary share was paid out of the contributed surplus of the Company on 15th April 2004.

The Board of directors proposes a final dividend in respect of 2004 of HK\$0.05 (2003: Nil) per ordinary share. This dividend will be accounted for as an appropriation of retained profit in the year ending 31st December 2005.

10. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$132,639,000 (2003: HK\$144,274,000) and 827,639,886 (2003: weighted average of 827,418,282) ordinary shares in issue during the year.

11. FIXED ASSETS

Group

	Investment properties <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture, office equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At 1st January 2004	474,000	51,923	4,855	1,847	532,625
Additions	12,087	–	3,092	595	15,774
Write off	–	–	(53)	–	(53)
Revaluation surplus	66,913	–	–	–	66,913
Reclassification (<i>note (c)</i>)	(333,000)	333,000	–	–	–
At 31st December 2004	<u>220,000</u>	<u>384,923</u>	<u>7,894</u>	<u>2,442</u>	<u>615,259</u>
Accumulated depreciation					
At 1st January 2004	–	1,058	890	412	2,360
Charge for the year	–	3,966	1,270	485	5,721
Write off	–	–	(10)	–	(10)
At 31st December 2004	<u>–</u>	<u>5,024</u>	<u>2,150</u>	<u>897</u>	<u>8,071</u>
Net book value					
At 31st December 2004	<u>220,000</u>	<u>379,899</u>	<u>5,744</u>	<u>1,545</u>	<u>607,188</u>
At 31st December 2003	<u>474,000</u>	<u>50,865</u>	<u>3,965</u>	<u>1,435</u>	<u>530,265</u>

Notes:

- (a) At 31st December 2004, the Group's investment properties were revalued on an open market value basis by Chesterton Petty Limited, an independent professional valuer and were held under the following terms:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Long lease in Hong Kong	–	260,000
Long leases in the Mainland China (<i>note (d)</i>)	<u>220,000</u>	<u>214,000</u>
	<u>220,000</u>	<u>474,000</u>

- (b) At 31st December 2004, the Group's leasehold land and buildings were held under the following terms:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Long leases in Hong Kong	<u>379,899</u>	<u>50,865</u>

At 31st December 2004, all of the Group's leasehold land and buildings were pledged to secure certain long-term bank loans (*note 18*).

- (c) During the year, the directors decided to change the use of an investment property to corporate-use. Accordingly, the property was reclassified to leasehold land and buildings.
- (d) Balance included an investment property situated in Mainland China of HK\$95 million (2003: HK\$95 million) acquired in 2002 from a company wholly owned by Mr. Hui, Chairman of the Company, which the transfer of the registered ownership in the PRC Land Registry is still in progress. In the opinion of directors, based on legal advice, the Group possesses a valid title on the property and will procure the transfer of the registered ownership as soon as practicable.

12. ASSOCIATED COMPANY/JOINTLY CONTROLLED ENTITY

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investment, at cost	70,250	70,250
Share of undistributed post-acquisition reserves	222,853	166,036
	<u>293,103</u>	<u>236,286</u>
Share of net assets	<u>293,103</u>	<u>236,286</u>

At 31st December 2004, the Group had interest in the following associated company:

Name of entity	Place of registration	Registered capital	Attributable interest	Principal activities
Shanghai Shimao Hubin Real Estate Company Limited ("Shimao Hubin")	PRC	US\$18 million	50%	Property development

Shimao Hubin is a sino-foreign equity joint venture for a period of 20 years commencing from 19th April 2002.

Pursuant to amendments to the joint venture agreement and articles of association of Shimao Hubin dated 25th October 2004, the number of directors of Shimao Hubin was increased from four to five. Following this change, the number of representatives of the Company on the board of directors of Shimao Hubin remains two while that of the other joint venturer was increased from two to three.

In the opinion of directors, the Group can only exercise significant influence over Shimao Hubin after the above mentioned change of the board composition and Shimao Hubin is accordingly accounted for as an associated company.

Set out below is a summary of financial information of Shimao Hubin for the year ended 31st December 2004:

(a) Results

	2004 HK\$'000	2003 HK\$'000
Turnover	<u>1,196,188</u>	<u>1,141,414</u>
Profit before taxation	400,061	385,220
Taxation	<u>60,009</u>	<u>58,420</u>
Profit after taxation	<u>340,052</u>	<u>326,800</u>
Dividend	<u>226,415</u>	<u>–</u>
Attributable to the Group		
Profit before taxation	200,030	192,610
Taxation	<u>30,005</u>	<u>29,210</u>
Profit after taxation	<u>170,025</u>	<u>163,400</u>
Dividend received	<u>113,208</u>	<u>–</u>

(b) Net assets

	2004 HK\$'000	2003 HK\$'000
Non-current assets	3,194	3,328
Current assets	989,976	1,707,684
Current liabilities	<u>(406,963)</u>	<u>(1,238,440)</u>
	<u>586,207</u>	<u>472,572</u>
Net assets attributable to the Group	<u>293,103</u>	<u>236,286</u>

- (c) As at 31st December 2004, Shimao Hubin provided guarantees amounting to HK\$682 million (2003: HK\$1,320 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, Shimao Hubin is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owned by the defaulted purchasers to the banks and Shimao Hubin is entitled to take over the legal title and possession of the related properties. Shimao Hubin's guarantee period starts from the date of grant of the relevant mortgage loans and ends when Shimao Hubin obtains the property title certificate for the purchasers, or when Shimao Hubin obtains the master property title certificate upon completion of construction.

The directors of Shimao Hubin consider that in case of default, the net realisable value of the related properties can cover the repayment of outstanding mortgage principals together with the accrued interest, penalty and other associated costs and therefore no provision has been made in the accounts for the guarantees.

- (d) Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the regulations on 27th January 1995 in the PRC, all gains arising from the transfer of real estate property in the PRC effective from 1st January 1994 are subject to LAT at progressive rates of up to 60%. Notwithstanding these provisions, an exemption to LAT for a period of five years is applicable for property development contracts which were signed before 1st January 1994. This exemption to LAT expired on 31st December 1998.

No provision for LAT has been made in the accounts since Shimao Hubin had not been required by the relevant authorities to pay LAT and the directors of Shimao Hubin consider that it is unlikely to receive demands from the tax authorities in the PRC for payment of the LAT relating to the sales revenue recognised on or before 31st December 2004 which would otherwise have amounted to approximately HK\$157.5 million (2003: HK\$94.8 million).

13. COMPLETED PROPERTIES HELD FOR SALE/PROPERTIES UNDER DEVELOPMENT

At 31st December 2004, all of the Group's completed properties held for sale (2003: properties under development) were pledged to secure a long-term bank loan (note 18) and a short-term bank loan.

14. SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries, net of provision	486,287	394,281
	<u>486,287</u>	<u>394,281</u>

Details of the principal subsidiaries at 31st December 2004 are as follows:

Name	Place of incorporation/ operations	Issued share capital/ registered capital	Attributable Interest	Principal activities
Directly held				
Shimao HK Management Company Limited	Hong Kong	HK\$2	100%	Management services
Vast Union Investments Limited	British Virgin Islands ("BVI")	US\$1	100%	Investment holding
Indirectly held				
Champ Master Management Limited	Hong Kong/PRC	HK\$2	100%	Property investment
Lanzhou Xinglong Real Estate Development Co., Ltd. (note)	PRC	RMB20,000,000	100%	Property investment
Shimao (Genesis) Company Limited	BVI/Hong Kong	US\$1	100%	Property investment and development
Shimao (Hong Kong) Investment Limited	BVI/Hong Kong	US\$1	100%	Investment holding

Note: Established as a wholly-owned foreign enterprise for a period of 50 years commencing from 2nd December 1992.

15. TRADE RECEIVABLES

The Group normally allows a credit period of one month to its trade customers. The aging analysis of trade receivables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	29	490
1 to 60 days	–	980
61 to 90 days	–	980
Over 90 days	75	435
	<u>104</u>	<u>2,885</u>

16. TRADE PAYABLES

The Group's trade payables mainly comprise costs payable for property development projects which are payable upon completion of work certified by the architects. At 31st December 2004, most of the Group's trade payables were current within their respective terms of credit.

17. AMOUNT DUE TO ULTIMATE HOLDING COMPANY AND RELATED COMPANIES

The balances are unsecured, interest free and have no fixed repayment terms.

18. LONG-TERM BANK LOANS

	Group	
	2004 HK\$'000	2003 HK\$'000
Secured bank loans	161,650	171,617
Current portion included in current liabilities	(13,133)	(13,067)
	<u>148,517</u>	<u>158,550</u>
The loans are repayable as follows:		
Within one year	13,133	13,067
Between one and two years	13,133	13,067
Between two and five years	39,400	36,868
After five years	95,984	108,615
	<u>161,650</u>	<u>171,617</u>

19. SHARE CAPITAL

	Number of ordinary shares of HK\$0.1 each '000	HK\$'000
Authorised:		
At 31st December 2003 and 2004	<u>10,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 31st December 2003 and 2004	<u>827,640</u>	<u>82,764</u>

20. RESERVES

Group

	Share premium	Contributed surplus (note a)	Capital reserve (note b)	Other properties revaluation reserve	Investment properties revaluation reserve	Retained profit/ (accumulated loss)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2002	317,774	47,654	19,543	-	13,155	(140,611)	257,515
Exercise of warrants	516	-	-	-	-	-	516
Revaluation surplus of investment properties	-	-	-	-	55,001	-	55,001
Profit for the year	-	-	-	-	-	144,274	144,274
At 31st December 2003	318,290	47,654	19,543	-	68,156	3,663	457,306
Reduction of share premium	(318,290)	106,482	-	-	-	211,808	-
Payment of special dividend	-	(49,658)	-	-	-	-	(49,658)
Revaluation surplus of investment properties							
- Gross	-	-	-	-	66,913	-	66,913
- Taxation	-	-	-	-	(503)	-	(503)
Reclassification (note 11 (c))	-	-	-	133,218	(133,218)	-	-
Release of revaluation reserve	-	-	-	(1,125)	-	1,125	-
Profit for the year	-	-	-	-	-	132,639	132,639
At 31st December 2004	-	104,478	19,543	132,093	1,348	349,235	606,697
Retained by							
Company and subsidiaries	-	104,478	19,543	132,093	1,348	126,382	383,844
An associated company	-	-	-	-	-	222,853	222,853
At 31st December 2004	-	104,478	19,543	132,093	1,348	349,235	606,697

Company

	Share premium	Contributed surplus (note a)	Retained profit/ (accumulated loss)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2002	317,774	152,029	(219,396)	250,407
Exercise of warrants	516	-	-	516
Profit for the year	-	-	7,588	7,588
At 31st December 2003	318,290	152,029	(211,808)	258,511
Reduction of share premium	(318,290)	106,482	211,808	-
Payment of special dividend	-	(49,658)	-	(49,658)
Profit for the year	-	-	120,370	120,370
At 31st December 2004	-	208,853	120,370	329,223

- (a) The contributed surplus of the Group brought forward arose as a result of the Group reorganisation carried out in 1998, and represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company brought forward represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

At the annual general meeting held on 2nd April 2004, the shareholders of the Company approved that the entire amount standing to the credit of the share premium account of the Company as at 31st December 2003 of HK\$318,290,000 be cancelled (the "Share Premium Reduction"), and part of the credit arising of HK\$211,808,000 be set off against the accumulated loss of the Company as at 31st December 2003 and to transfer the remaining balance of the credit of HK\$106,482,000 arising from the Share Premium Reduction to the contributed surplus account of the Company.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. Accordingly, the distributable reserve of the Company at 31st December 2004 amounted to HK\$329,223,000.

- (b) The capital reserve of the Group represents the excess of the fair value of the net assets of the subsidiaries acquired in 2002 from a related company, which is wholly and beneficially owned by a director of the Company, over the nominal value of the promissory notes issued in exchange therefor.

21. PROMISSORY NOTES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Issued to:				
A related company	30,000	30,000	-	-
Ultimate holding company	10,000	10,000	10,000	10,000
	<u>40,000</u>	<u>40,000</u>	<u>10,000</u>	<u>10,000</u>

The promissory notes are unsecured, bear interest at 1.5% per annum and wholly repayable on 31st December 2005.

22. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the provinces in the PRC in which the Group operates. Deferred taxation relates to temporary differences on certain of the Group's investment properties and movements during the year are as follows:

	Assets/(liabilities)			
	Tax	Accelerated		
	losses	depreciation	Revaluation	Total
	HK\$'000	allowances	HK\$'000	HK\$'000
		HK\$'000		
At 31st December 2002	2,733	(3,930)	(29,179)	(30,376)
Transfer to profit and loss account	(123)	(765)	-	(888)
At 31st December 2003	2,610	(4,695)	(29,179)	(31,264)
Transfer to profit and loss account (note 7)	(1,696)	(260)	-	(1,956)
Transfer to reserve (note 20)	-	-	(503)	(503)
At 31st December 2004	<u>914</u>	<u>(4,955)</u>	<u>(29,682)</u>	<u>(33,723)</u>

The deferred taxation is to be settled after more than 12 months.

Deferred taxation assets of HK\$16,951,000 (2003: HK\$11,337,000) arising from unused tax losses of HK\$96,861,000 (2003: HK\$64,783,000) have not been recognised in the accounts. Unused tax losses have no expiry date.

23. COMMITMENT

At 31st December 2004, the Group had the following capital commitments in respect of fixed assets:

	2004	2003
	HK\$'000	HK\$'000
Contracted but not provided for	<u>1,926</u>	<u>9,259</u>

24. CONTINGENT LIABILITIES

The Company has given guarantees in favour of bankers to the extent of HK\$232,000,000 (2003: HK\$196,000,000) in respect of banking facilities granted to subsidiaries of the Company. The banking facilities are also guaranteed by a director of the Company, the Company and a related company. At 31st December 2004, the banking facilities utilised by the subsidiaries amounted to approximately HK\$195,854,000 (2003: HK\$171,616,000).

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash used in operations

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	164,745	174,903
Interest income	(2)	(562)
Interest expense	3,516	6,000
Depreciation	5,721	2,276
Fixed assets written-off	43	–
Share of profit of an associated company a jointly controlled entity	<u>(200,030)</u>	<u>(192,610)</u>
Operating loss before working capital change	(26,007)	(9,993)
Increase in completed properties held for sale/properties under development	(43,716)	(21,842)
(Increase)/decrease in prepayments, deposits and other receivables	(1,387)	379
Increase in trade receivables	(2,931)	(1,155)
Increase in trade payables	2,011	2,075
Increase in other payables and accruals	<u>5,947</u>	<u>3,184</u>
Net cash used in operations	<u><u>(66,083)</u></u>	<u><u>(27,352)</u></u>

(b) Analysis of changes in financing during the year

Group

	Share capital HK\$'000	Promissory notes HK\$'000	Bank loans HK\$'000	Amounts due to related companies HK\$'000	Amount due to ultimate holding company HK\$'000
At 1st January 2003	81,982	130,000	187,259	9,427	4,201
Net cash from/(used in) financing	<u>782</u>	<u>(90,000)</u>	<u>(14,038)</u>	<u>42,075</u>	<u>60,443</u>
At 31st December 2003	82,764	40,000	173,221	51,502	64,644
Net cash from/(used in) financing	<u>–</u>	<u>–</u>	<u>23,199</u>	<u>(47,398)</u>	<u>34,725</u>
At 31st December 2004	<u><u>82,764</u></u>	<u><u>40,000</u></u>	<u><u>196,420</u></u>	<u><u>4,104</u></u>	<u><u>99,369</u></u>

26. RELATED PARTY TRANSACTIONS

Related companies as referred to in notes 17 and 21 of the accounts are those companies which are controlled and/or beneficially owned by certain directors of the Company.

During the year, the Group entered into the following related party transactions, which were carried out in the normal course of the Group's business:

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Interest on promissory note to ultimate holding company (<i>note 21</i>)		150	150
Interest on promissory note to a related company (<i>note 21</i>)		452	769
Interest income from a jointly controlled entity	(a)	–	560
Service fee income from a related company	(b)	2,100	3,175
		<u> </u>	<u> </u>

Notes:

- (a) Interest income was charged on loan provided to a jointly controlled entity. The loan was unsecured, interest bearing and was fully repaid in March 2003.
- (b) The service fee income was charged at fixed amount to a related company as specified in the service contract. The service contract was terminated in July 2004.

27. SUBSEQUENT EVENTS

- (a) On 19th February 2005, the Company entered into the non-competition undertaking ("Undertaking") with Shimao Property Holdings Limited, a related company wholly-owned by Mr. Hui Wing Mau, Mr. Xu Shiyong, Mr. Hui's nephew, Shanghai Shimao Enterprises Development Co. Ltd., a company established in the PRC in which Mr. Xu holds a 93.33% interest and 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. Pursuant to the Undertaking, the parties agree to delineate their respective businesses on the terms and conditions set out therein. The transaction will be put forward to independent shareholders for approval at a special general meeting of the Company.
- (b) On 19th February 2005, the Company entered into a conditional sale and purchase agreement with Dynamic Keen Development Limited ("Dynamic Keen"), a related company wholly-owned by Mr. Hui Wing Mau, the Chairman of the Company to acquire 100% equity interest of Value Ahead Investment Limited ("Value Ahead"), together with the amount due to Dynamic Keen (the "Acquisition"). The primary asset of Value Ahead is 100% interest in Suifenhe Shimao Development and Construction Company Limited ("Suifenhe Shimao"). Suifenhe Shimao is the project company of a property development project located in a region designated by the Chinese and Russian governments for the development of cross-border commerce and tourism between the PRC and Russia and which is planned to include a mixture of residential, hotel, commercial and retail space and warehousing, logistics and leisure and entertainment facilities.

The consideration for the Acquisition was HK\$496,220,000, comprising HK\$301,609,000, being the consideration for the purchase of the 100% equity interest of Value Ahead and HK\$194,611,000, being the consideration of the purchase of the amount due to Dynamic Keen. The Consideration shall be satisfied by way of issuance of convertible note of HK\$250,000,000 and the promissory note of HK\$246,220,000 on the completion date. The transaction will be put forward to independent shareholders for approval at a special general meeting of the Company.

- (c) On 19th February 2005 the Company proposed to change of the Company's name to Shimao International Holdings Limited. The proposal will be put forward to the shareholders of the Company for approval at the forthcoming annual general meeting to be held on 23rd May 2005.

28. ULTIMATE HOLDING COMPANY

The directors of the Company consider Perfect Zone International Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

29. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd April 2005.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

For illustrative purpose only, set out below is the unaudited pro forma financial information as at 31 December 2004 to show the effect of the acquisition of 100% equity interest of Value Ahead Investments Limited (“Value Ahead”) by Shimao China Holdings Limited (the “Company”) (the “Acquisition”) on the assets and liabilities of the Enlarged Group as if it had taken place on 31 December 2004. The Enlarged Group referred to hereinafter include the Company and its subsidiaries (the “Group”) and Value Ahead and its subsidiaries (the “Value Ahead Group”).

(A) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2004 has been prepared using accounting policies materially consistent with that of the Group and based on the audited consolidated balance sheet of the Group as at 31 December 2004 as per the published annual report included in the Financial Information set out in Appendix II of this circular and the audited consolidated balance sheet of the Value Ahead Group as at 31 December 2004 as shown in the Accountants’ report set out in Appendix I of this circular, after making certain pro forma adjustments as set out in notes 1 to 3 below. They have been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group or the Enlarged Group had the Acquisition actually been completed as at 31 December 2004.

APPENDIX III
FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Audited				Notes	Unaudited pro forma balance of the Enlarged Group HK\$'000
	As at 31 December 2004		Aggregated	Pro forma adjustments		
	The Group	Value Ahead Group				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
Non-current assets						
Fixed assets	607,188	29,326	636,514	22,324	2	658,838
Property held for development	–	176,567	176,567	129,093	2	305,660
Associated company	293,103	–	293,103	–		293,103
Other non-current asset	–	62,213	62,213	–		62,213
Goodwill/ (negative goodwill)	–	–	–	(65,459)	3	(65,459)
	<u>900,291</u>	<u>268,106</u>	<u>1,168,397</u>			<u>1,254,355</u>
Current assets						
Properties under development for sale	–	61,589	61,589	311,996	2	373,585
Completed properties held for sale	142,508	–	142,508	–		142,508
Trade receivables	104	–	104	–		104
Other receivables, deposits and prepayments	22,386	621	23,007	–		23,007
Bank balances and cash	18,359	30,082	48,441	–		48,441
	<u>183,357</u>	<u>92,292</u>	<u>275,649</u>	–		<u>587,645</u>
Current liabilities						
Trade payables	4,086	–	4,086	–		4,086
Advanced proceeds received from customers	–	4,355	4,355	–		4,355
Other payables and accruals	16,485	19,213	35,698	–		35,698
Amount due to immediate holding company	–	194,611	194,611	(194,611)	1	–
Amount due to ultimate holding company	99,369	–	99,369	–		99,369
Amounts due to related companies	4,104	22,642	26,746	–		26,746
Amount received from Suifenhe Land Resource Department	–	6,318	6,318	–		6,318
Tax payable	–	72	72	–		72
Current portion of long-term bank loans	13,133	–	13,133	–		13,133
Short-term bank loans, secured	34,770	–	34,770	–		34,770
Promissory notes	40,000	–	40,000	–		40,000
	<u>211,947</u>	<u>247,211</u>	<u>459,158</u>			<u>264,547</u>
Net current (liabilities)/assets	<u>(28,590)</u>	<u>(154,919)</u>	<u>(183,509)</u>			<u>323,098</u>
Total assets less current liabilities						
	<u>871,701</u>	<u>113,187</u>	<u>984,888</u>			<u>1,577,453</u>

	Audited				Notes	Unaudited pro forma balance of the Enlarged Group
	As at 31 December 2004		Aggregated	Pro forma adjustments		
	The Group	Value Ahead Group				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Non-current liabilities						
Long-term bank loans	148,517	–	148,517	–		148,517
Promissory notes	–	–	–	212,384	1	212,384
Convertible notes	–	–	–	232,994	1	232,994
Deferred tax liabilities	33,723	–	33,723	143,567	2	177,290
Amount received from Suifenhe Land Reserve Centre	–	116,807	116,807	–		116,807
	<u>182,240</u>	<u>116,807</u>	<u>299,047</u>			<u>887,992</u>
Net assets/(liabilities)	<u>689,461</u>	<u>(3,620)</u>	<u>685,841</u>			<u>689,461</u>

Pro forma adjustments

- (1) On 19 February 2005, the Company entered into a conditional sale and purchase agreement with Dynamic Keen Developments Limited (“Dynamic Keen”) (“S&P Agreement”), a related company wholly-owned by Mr. Hui Wing Mau, the Chairman of the Company to acquire 100% equity interest of Value Ahead, together with the amount due to Dynamic Keen.

The Consideration for the Acquisition was HK\$496,220,000, comprising HK\$301,609,000, being the consideration for the purchase of the 100% equity interest of Value Ahead and HK\$194,611,000, being the consideration of the purchase of the amount due to Dynamic Keen. The Consideration shall be satisfied by way of issue of the Convertible Note of HK\$250,000,000 and the Promissory Note of HK\$246,220,000 on the date of Completion. The principal terms of the Convertible Note and the Promissory Note are set out on pages 10 to 11 of the circular.

The Company’s Directors have considered a valuation performed by Sallmanns (Far East) Limited, independent professional valuers, and of the view that at 20 May 2005, being the latest practicable date, the fair value of the Promissory Note to be HK\$212,384,000.

The Company’s Directors have also considered that at 20 May 2005, being the latest practicable date, the fair value of the Convertible Note to be HK\$232,994,000.

The final fair value of the Convertible Note and Promissory Note, which may be different to the one presented, to be recorded by the Group on completion will be determined with reference to the valuation performed by Sallmanns (Far East) Limited, independent valuer at date of Completion and will be sensitive to the market price and the volatility of the market price of the shares of the Company as well as the volatility of the interest rate up to the date of Completion.

- (2) The Enlarged Group's share of the assets and liabilities of Value Ahead Group as part of the Acquisition will be accounted for in the consolidated accounts of the Enlarged Group at their fair value under the purchase method of accounting. The Company's Directors have considered a valuation performed by Savills (Hong Kong) Limited, independent professional valuers on the property interests of Value Ahead as at 30 April 2005, and of the view that as at 31 December 2004, the Group's share of the fair value of the property interests resulting from the Acquisition would be higher than their corresponding net book value as at 31 December 2004 by approximately HK\$319,846,000. The adjustment reflects (a) the increase in the Enlarged Group's share of the value of the property interests of Value Ahead resulting from the Acquisition as compared to their corresponding net book value as at 31 December 2004, of approximately HK\$463,413,000, and (b) the related additional deferred tax liabilities of HK\$143,567,000 arising from such revaluation surpluses, as if the Acquisition had taken place on 31 December 2004.

As advised by the PRC legal advisor to the Company, the levying of Land Appreciation Tax ("LAT") has not yet been actually implemented within the Heilongjiang Province in which the property interests of Suifenhe Shimao are located and if such non-levying policy remains unchanged, Suifenhe Shimao for the time being is not required to pay LAT attributable to the appreciation of its property interests. As such, the Company's directors has not taken into account of, in the above calculation of deferred tax liabilities, the effect of the potential LAT attributable to the Enlarged Group upon the realisation of the property interests which may otherwise amount to approximately HK\$137,201,000, net of income tax saving. For the purpose of completion of the S&P Agreement, the Company will require and Dynamic Keen and Mr. Hui as guarantor have agreed, to enter into a deed of tax indemnity to indemnify the Company against, inter alia, such amount of potential LAT not exceeding HK\$137,201,000 arising from the valuation surplus of the property interests of Suifenhe Shimao.

- (3) Negative goodwill represents the excess of the Enlarged Group's share of the estimated fair value of the underlying net assets of Value Ahead Group resulting from the Acquisition over the sum of the total purchase consideration and the related acquisition costs. The adjustment reflects the recording of the negative goodwill resulting from the Acquisition of approximately HK\$65,459,000 as if the Acquisition had taken place on 31 December 2004.

The final amount of negative goodwill, which may be different to the one presented, or goodwill (as appropriate, in case that the sum of the total purchase consideration and the related acquisition costs is in excess of the Enlarged Group's share of estimated fair value of the underlying net assets of Value Ahead Group resulting from the Acquisition), to be recorded by the Group on Completion will be determined under Hong Kong Financial Reporting Standard ("HKFRS") 3 – Business Combination, which has become effective from 1 January 2005. It will basically be subject to the fair value of the Convertible Note and Promissory Note issued by the Company and the Group's interest in the fair value of the identifiable assets and liabilities, including contingent liabilities (if any) of the Value Ahead Group at the date of Completion, after consideration of the new Hong Kong Financial Reporting Standards effective from 1 January 2005.

Under HKFRS 3, goodwill resulting from the Acquisition is tested for impairment at each balance sheet date, whereas negative goodwill resulting from the Acquisition is credited to the profit and loss account immediately at the date of Completion.

(B) Letter on Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

The following is the text of a letter received from PricewaterhouseCoopers, the reporting accountants, in respect of the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group.

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

25 May 2005

The Directors
Shimao China Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Shimao China Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 127 to 131 under the heading of unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group set out in Appendix III of the Company's circular dated 25 May 2005 in connection with the acquisition of 100% equity interest of Value Ahead Investments Limited and its subsidiaries (the "Value Ahead Group") (hereinafter the Group and the Value Ahead Group are collectively referred to as the "Enlarged Group"). The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the Value Ahead Group's shares might have affected the relevant financial information of the Group as at 31 December 2004.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out in Section 1(A) of Appendix III of the circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group or the Enlarged Group as at 31 December 2004, or at any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

2. INDEBTEDNESS

Borrowings

At the close of business on 30 April 2005 being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Enlarged Group had borrowings of approximately HK\$198.4 million, which comprised promissory note of HK\$40.0 million, and secured long term bank loans of HK\$158.4 million. The secured bank loans were secured by legal charges over certain properties of the Group. The promissory notes are repayable within one year.

Contingent liabilities

As at 30 April 2004, the Enlarged Group had contingent liabilities in respect of the potential LAT upon the realisation of the property interests which may otherwise amount to approximately HK\$137,201,000, net of income tax saving. For the purpose of completion of the S&P agreement, the Company will require and Dynamic Keen and Mr. Hui as guarantor have agreed, to enter into a deed of tax indemnity to indemnify the Company against, inter alia, such amount of potential LAT not exceeding HK\$137,201,000 arising from the valuation surplus of the property interests of Suifenhe Shimaos.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 30 April 2005.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 April 2005.

3. WORKING CAPITAL

The Directors are of the opinion that, upon completion of the Acquisition and after taking into account the available facilities and internal resources, the Enlarged Group has sufficient working capital for its present requirement.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2004, being the date to which the latest audited consolidated financial statements of the Group were made up.



Valuation Department

DL: (852) 2801 6100

F: (852) 2530 0756

23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-002450

T: (852) 2842 4400

savills.com

25 May 2005

The Directors
Shimao China Holdings Limited
Units 4307-12
43rd Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

Re: Various Properties to the North of National Highway 301, Pogradichny-Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC

We refer to your instructions for us to value the property interests in the above properties, which are to be acquired by Shimao China Holdings Limited (the "Company") and/or its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"). We confirm that we have carried out site inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 April 2005 (the "Valuation Date").

Our valuation is our opinion of the market value which we would define as intended to mean “the estimated amount for which a Property should exchange on the date of Valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Our valuation is prepared in accordance with the Guidance Notes on the Valuation of Property Assets published by The Hong Kong Institute of Surveyors, Chapter 5 and Practice Note 12 of Listing Rules published by The Stock Exchange of Hong Kong.

Our valuation has been made on the assumption that the property interests are sold on the open market in their existing states without the effect of deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect their values. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties, and no allowance is made for the properties to be sold to a single party and/or as a portfolio or portfolios.

The properties in Group I are to be acquired by the Group under development, which include Property 1 and 2. As no relevant comparables of Property 1 is available for direct comparison, we have employed the residual method of valuation in which the market value of the property concerned, assuming newly completed based on the details of the development proposal provided to us as at the Valuation Date (i.e. gross development value of the property), is firstly established by the comparison method of valuation. The total unexpended cost of development including construction costs, professional fees and other associated expenditure, together with an allowance for interest expense, and developer’s profit are estimated and deducted from the established gross development value of the property. The resultant residue figure is then adjusted back to the Valuation Date to arrive at the market value of the property concerned in its existing state.

Property 2 is valued by the comparison method of valuation on the assumption that the property can be sold with the benefit of vacant possession. Comparison based on prices realized on actual sales or offerings of comparable properties is made. Comparable properties with similar sizes, character and locations are analysed, and carefully weighted against all respective advantages and disadvantages of the property in order to arrive at a fair comparison of value.

Property 3 in Group II is to be acquired by the Group for future development and is valued by the comparison method of valuation on the assumption and basis same to those allowed for Property 2 above.

In valuing the property interests in Group I, we have valued the property interests on the basis that the properties will be developed and completed in accordance with the Group’s latest development proposals provided to us. In arriving at our opinion of values, we have taken into consideration the development costs already expended and to be expended to reflect the quality of the completed developments.

We have assumed that all consents, approvals and licences from relevant government authorities for the proposals have been or will be granted without onerous conditions or delay for the properties. We have also assumed that the owners of the property interests have free and uninterrupted rights to use and assign the properties during the whole of the respective unexpired terms granted subject to payment of land-use rights fees.

Other special assumptions of each of the properties, if any, have been stated in the footnotes of the respective valuation certificate.

We have not checked the title to the property interests, but have been given copies of relevant title documents and have verified that they are copies of the original title documents. We have relied on the advice given by the Group and its legal advisor on the PRC laws, Tianyuan Law Firm (the "PRC Legal Advisors"), regarding the title to the property interests of the properties. For the purpose of our valuation, we have taken into account the legal opinion of the PRC Legal Advisors and have, unless otherwise stated, assumed that the Group has enforceable title to the property interests. While we have exercised our professional judgement in arriving at our opinion of values, you are urged to consider our valuation assumptions with caution.

We have inspected the properties. However, no structural survey has been made for the property and we are therefore unable to report as that they are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. Further, no site investigation has been carried out to determine the suitability of the ground conditions or the services for any property development thereon. Our valuation is carried out on the assumption that these aspects are satisfactory.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the Group, particularly in respect of planning approvals or statutory notices, easements, floor areas, development costs expended and to be expended, and in the identification of the properties. All documents have been used for reference only. Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, and have been advised by the Group that no material facts have been omitted from the information provided. We have no reason to suspect that any material information has been withheld, and consider that we have been provided sufficient information to establish an informed view.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties or for expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Unless otherwise stated, all amounts stated herein are in Renminbi.

Our valuation is summarized and our valuation certificates are attached.

Yours faithfully
For and on behalf of
Savills (Hong Kong) Limited
David W I Cheung
MRICS, MHKIS, RPS (GP), CCRA, MCI Arb,
MPMEC, MREP, FCCMA
Director
Valuation and Consultancy

Note: Mr David W I Cheung is a Chartered Surveyor with over 20 years' valuation experience on properties in Hong Kong and over 15 years' valuation experience on properties in the PRC.

SUMMARY OF VALUES

No.	Property	Capital Value in Existing State as at 30 April 2005 (RMB)	Interest attributable to the Group (%)	Capital Value Attributable to the Group (RMB)
Group I – Property interests to be acquired by the Group under Development				
1.	First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期) on portion of a piece of land (Lot No.: BY-(20)-48) to the North of National Highway 301, Pogranichny-Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	396,000,000	100%	396,000,000
2.	5-star Hotel (No.1) on portion of a piece of land (Lot No.: BY-(20)-48) to the North of National Highway 301, Pogranichny-Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	53,300,000	100%	53,300,000
	Sub-total	449,300,000		449,300,000

No.	Property	Capital Value in Existing State as at 30 April 2005 (RMB)	Interest attributable to the Group (%)	Capital Value Attributable to the Group (RMB)
Group II – Property interests to be acquired by the Group for Future Development				
3.	A piece of land (Lot No.: BY-(20)-47 and portion of Lot No.: BY-(20)-48) to the North of National Highway 301, Pogranichny-Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	324,000,000	100%	324,000,000
	Sub-total	<u>324,000,000</u>		<u>324,000,000</u>
	Total	<u><u>773,300,000</u></u>		<u><u>773,300,000</u></u>

VALUATION CERTIFICATE

Group I – Property interests to be acquired by the Group under Development

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in its existing state as at 30 April 2005
1.	First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期) on portion of a piece of land (Lot No.: BY-(20)-48) to the North of National Highway 301, Pogranichny-Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	<p>Upon full completion, First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期) will comprise a 3/4-storey commercial building, which will accommodate 1,767 units.</p> <p>The property has a total site area of approximately 38,010 sq.m. (409,136 sq.ft.).</p> <p>The property is planned to comprise a gross floor area of approximately 79,914 sq.m. (860,186 sq.ft.) and is scheduled to be completed in May 2006.</p> <p>As at the Valuation Date, 21 units comprising a total gross floor area of 647.41 sq.m. (6,969 sq.ft.) are sold. <i>Please refer to Note 6 for details.</i></p> <p>The property is held for a land use rights term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044 for commercial use.</p>	The property is in its construction progress.	<p>RMB396,000,000</p> <p>(100% interest attributable to the Group)</p> <p>RMB396,000,000)</p> <p>(The land underlying the property, together with the remaining portion of Lot No. BY-(20)-48 and the whole of Lot No. BY-(20)-47, were acquired on 20 March 2004 and 15 April 2004 in a total consideration of approximately RMB133,925,551. The total construction costs and professional fees incurred were RMB64,949,000.)</p>

Notes:

1. i. Pursuant to State-owned Land Use Rights Grant Contract dated 15 April 2004 (the “Grant Contract”) issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) agreed to acquire the land use rights term of 40 years (from the date of the Grant Contract) in a parcel of land located to the north of National Highway 301 with a site area of 414,997 sq.m. According to the Grant Contract, the property is restricted to be used for commercial purposes and the construction works of which is to commence on or before 15 August 2004.
- ii. Pursuant to Certificate of State-owned Land Use (Document No. Sui Guo Yong (2004) Zi Di No. 0234) dated 21 July 2004 issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), the land use rights of the site with an area of 414,997 sq.m., in which the property forms part of, have been granted to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) for commercial uses for a term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044.

2. Pursuant to two Construction Land Use Planning Permits (Document Nos.: 2004043 and 2004062) issued by Urban and Rural Planning and Management Bureau of Suifenhe (綏芬河市城鄉規劃管理局) on 30 July 2004 and 1 December 2004 respectively, the construction site of First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期) on a piece of land to the north of National Highway 301 with a site area of 38,010 square metres is in compliance with the requirements of urban planning and is permitted.
3. Pursuant to two Construction Works Planning Permits (Document Nos.: 2004043 and 2004062) issued by Urban and Rural Planning and Management Bureau of Suifenhe (綏芬河市城鄉規劃管理局) on 6 August 2004 and 10 December 2004 respectively, the construction works of First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期), with a total gross floor area of 83,500 square metres, is in compliance with the requirements of construction works and is approved.
4. Pursuant to two Construction Works Commencement Permits (both Document No.: 2310200409010101) issued by Construction Bureau of Suifenhe (綏芬河市建設局) on 30 August 2004, the construction works of First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期), with a total gross floor area of 83,500 square metres is in compliance with the requirements for works commencement and is permitted.
5. Pursuant to Commodity Housing Pre-sale Permit (Document No.: (Sui) Fang Pre-sale Permit No. (16)) issued by Suifenhe Real Estate Administration Bureau (綏芬河市房地產管理局) on 19 October 2004, 1,767 units of First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期) with a total gross floor area of 79,914 sq.m. (860,186 sq.ft.) are permitted to be pre-sold.
6. A total of 21 units with a total gross floor area of approximately 647.41 sq.m. (6,969 sq.ft.) in the property are subject to various agreements for sale and purchase in a total consideration of RMB12,517,338. In addition, all these portions of the property are subject to various agreements for transferral of operation rights (委託經營協議). Pursuant to those agreements for transferral of operation rights, Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has been appointed to operate these portions of the property during the period from the date of completion of the property until 31 December 2007. The total consideration and potential income from the aforesaid operation rights (if any) in respect of these portions of the property are reflected and included in our valuation shown above.
7. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:
 - i. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has obtained all the necessary approvals for its establishment, which is made in accordance with the laws of the PRC.
 - ii. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has the legal rights to operate the business as permitted under the business licence, including real estate development, construction, leasing, sale, hotel management, property management, etc.
 - iii. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) will legally obtain the land use rights of the property upon permission granted by State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳). There should be no legal impediment in obtaining such permission. No additional land premium is required to be paid in the above land acquisition. The abovementioned land use rights are not subject to any mortgage, encumbrance or third party interests.
 - iv. Upon permission granted by State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳) as stated in paragraph iii above, Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) will have the legal rights to transfer and mortgage the land use rights and construction in progress of the property.

- v. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has obtained the approvals, consents and relevant documents for the development of the construction in progress of the property, which is in accordance with the laws of the PRC.
 - vi. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) should have no material legal impediment in obtaining a valid Real Estate Ownership Certificate upon completion of the property provided that prior inspection and handover permission are conducted.
 - vii. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has the rights to pre-sale 1,767 units, with a total gross floor area of 79,914 sq.m., of the property.
 - viii. As at 30 April 2005, a total of 21 units, with a total gross floor area of 647.41 sq.m., in the property had been pre-sold. All those agreements for sales and purchase are valid, legally binding and made in accordance with the laws of the PRC.
 - ix. As at 30 April 2005, a total of 21 units, with a total gross floor area of 647.41 sq.m., of the pre-sold units in the property are subject to various agreements for transferral of operation rights (委託經營協議). All those agreements are valid, legally binding and made in accordance with the laws of the PRC.
 - x. According to the laws of the PRC, if the permission as stated in paragraph iii. above cannot be obtained, State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局) may be deemed *ultra vires* in granting the land use rights of the property to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) and the abovementioned land grant may be considered invalid. In case the abovementioned land grant is considered to be valid, State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳) may require State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局) to revise the land premium in the abovementioned land grant. Prior to the correction of the above situation or the settlement of any revised land premium, the purchasers of the abovementioned pre-sale units may not be able to register their ownership of the commodity units.
8. The land underlying the property, together with the remaining portions of Lot No. BY-(20)-48 and the whole of Lot No. BY-(20)-47, comprising a total site area of 722,824.5 sq.m., were acquired by Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) on 20 March 2004 and 15 April 2004 in a total consideration of approximately RMB133,925,551.
 9. The capital value of the property, assuming full completion under the development proposal as described in our valuation report, as at 30 April 2005 is RMB963,000,000, inclusive of the units that are contracted to be sold and the aggregate value of which is stated at their total contracted amount. In the course of our valuation, we have adopted the comparables in the subject property. (Note 6 above refers) Adjustments were made having taken into account the location, frontage and floor level of the comparables so as to arrive at the figure for gross development value.
 10. According to the Qualified Quantity Surveyors' Report, the total construction costs and professional fees incurred as at the Valuation Date were RMB64,949,000; whilst the total unexpended construction costs and professional fees (i.e. construction costs and professional fees to completion) as at the Valuation Date were RMB196,271,000.
 11. The future professional fees, future interest charges and developer's profit adopted in the residual valuation are approximately RMB9,150,000, RMB5,450,000 and RMB261,000,000 respectively.
 12. Warning Statement:

This Valuation arrived has not been determined by reference to comparable market transactions which is the most reliable method for valuing property assets and the most common method used for valuing properties in Hong Kong. In contrast, because of the lack of comparable market transactions in the locality in which the property is situated, this Valuation has used the residual method which is generally acknowledged as being a less reliable valuation method. The residual method is essentially

a means of valuing land by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. It relies upon a series of assumptions by the valuer which produce an arithmetical calculation of the expected current sale value as at the Valuation Date of the property being developed or held for development or redevelopment. Where the property is located in a relatively under-developed market, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised its professional judgment in arriving at the value, investors are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

13. A summary of major certificates/approvals is shown as follows:

i.	State-owned Land Use Rights Grant Contract	Yes
ii.	Certificate of State-owned Land Use	Yes
iii.	Construction Land Use Planning Permit	Yes
iv.	Construction Works Planning Permit	Yes
v.	Construction Works Commencement Permit	Yes
vi.	Pre-sale Permit	Yes
vii.	Construction Works Completion Inspection Report	No

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in its existing state as at 30 April 2005
2.	5-star Hotel (No.1) on portion of a piece of land (Lot No.: BY-(20)-48) to the North of National Highway 301, Pogranichny-Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	<p>Upon full completion, 5-star Hotel (No.1) will comprise a 6-storey hotel with 301 rooms erected over one podium floor and one basement floor, with restaurants, car parking spaces and other ancillary facilities to be provided therein.</p> <p>The property has a total site area of approximately 33,924 sq.m. (365,155 sq.ft.)</p> <p>The property is planned to comprise a gross floor area of approximately 42,767 sq.m. (460,340 sq.ft.) and is scheduled to be completed in December 2006.</p> <p>The property is held for a land use rights term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044 for commercial use.</p>	The property is in its construction progress.	<p>RMB53,300,000</p> <p>(100% interest attributable to the Group)</p> <p>RMB53,300,000)</p> <p>(The land underlying the property, together with the remaining portion of Lot No. BY-(20)-48 and the whole of Lot No. BY-(20)-47, were acquired on 20 March 2004 and 15 April 2004 in a total consideration of approximately RMB133,925,551. The total construction costs and professional fees incurred were RMB30,596,000.)</p>

Notes:

1. i. Pursuant to State-owned Land Use Rights Grant Contract dated 15 April 2004 (the "Grant Contract") issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) agreed to acquire the land use rights term of 40 years (from the date of the Grant Contract) in a parcel of land located to the north of National Highway 301 with a site area of 414,997 sq.m. According to the Grant Contract, the property is restricted to be used for commercial purposes and the construction works of which is to commence on or before 15 August 2004.
- ii. Pursuant to Certificate of State-owned Land Use (Document No. Sui Guo Yong (2004) Zi Di No. 0234) dated 21 July 2004 issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), the land use rights in the site with an area of 414,997 sq.m., in which the property forms part of, have been granted to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) for commercial uses for a term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044.
2. Pursuant to Construction Land Use Planning Permit (Document No.: 2004050) issued by Urban and Rural Planning and Management Bureau of Suifenhe (綏芬河市城鄉規劃管理局) on 17 September 2004, the construction site of 5-star Hotel (No.1) on a piece of land to the north of a planning road with a site area of 33,924 square metres is in compliance with the requirements of urban planning and is permitted.

3. Pursuant to Construction Works Planning Permit (Document No.: 2004050) issued by Urban and Rural Planning and Management Bureau of Suifenhe (綏芬河市城鄉規劃管理局) on 17 September 2004, the construction works of 5-star Hotel (No.1), with a total gross floor area of 42,767 square metres, is in compliance with the requirements of construction works and is approved.
4. Pursuant to Construction Works Commencement Permit (Document No.: 2310200410130101) issued by Construction Bureau of Suifenhe (綏芬河市建設局), the construction works of 5-star Hotel (No.1), with a total gross floor area of 42,767 square metres is in compliance with the requirements for works commencement and is permitted.
5. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:
 - i. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has obtained all the necessary approvals for its establishment, which is made in accordance with the laws of the PRC.
 - ii. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has the legal rights to operate the business as permitted under the business licence, including real estate development, construction, leasing, sale, hotel management, property management, etc.
 - iii. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) will legally obtain the land use rights of the property upon permission granted by State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳). There should be no legal impediment in obtaining such permission. No additional land premium is required to be paid in the above land acquisition. The abovementioned land use rights are not subject to any mortgage, encumbrance or third party interests.
 - iv. Upon permission granted by State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳) as stated in paragraph iii above, Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) will have the legal rights to transfer and mortgage the land use rights and construction in progress of the property.
 - v. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has obtained the approvals, consents and relevant documents for the development of the construction in progress of the property, which is in accordance with the laws of the PRC.
 - vi. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) should have no material legal impediment in obtaining a valid Real Estate Ownership Certificate upon completion of the property provided that prior inspection and handover permission are conducted.
 - vii. According to the laws of the PRC, if the permission as stated in paragraph iii. above cannot be obtained, State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局) may be deemed ultra vires in granting the land use rights of the property to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) and the abovementioned land grant may be considered invalid. In case the abovementioned land grant is considered to be valid, State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳) may require State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局) to revise the land premium in the abovementioned land grant.
6. The land underlying the property, together with the remaining portions of Lot No. BY-(20)-48 and the whole of Lot No. BY-(20)-47, comprising a total site area of 722,824.5 sq.m., were acquired by Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) on 20 March 2004 and 15 April 2004 in a total consideration of approximately RMB133,925,551.

7. A summary of major certificates/approvals is shown as follows:

i. State-owned Land Use Rights Grant Contract	Yes
ii. Certificate of State-owned Land Use	Yes
iii. Construction Land Use Planning Permit	Yes
iv. Construction Works Planning Permit	Yes
v. Construction Works Commencement Permit	Yes
vi. Pre-sale Permit	No
vii. Construction Works Completion Inspection Report	No

Group II – Property interests to be acquired by the Group for Future Development

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in its existing state as at 30 April 2005
3.	A piece of land (Lot No.: BY-(20)-47 and portion of Lot No.: BY-(20)-48) to the North of National Highway 301, Pogradichny-Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	<p>Pogradichny-Suifenhe Intertrading Economic Zone (“the Intertrading Zone”) is intended to comprise a total site area of 453 hectares, of which 153 hectares fall within the PRC national boundary (“the PRC Portion”), and the remaining 300 hectares fall within the Russian Federation national boundary.</p> <p>The property is situated in the north-western portion of the PRC Portion adjoining the national boundary between the PRC and Russian Federation. It has a total site area of approximately 650,890.5 sq.m. (7,006,120 sq.ft.) and is planned to be developed in phases. <i>Please refer to Note 2 below for further details.</i></p> <p>The property is intended to be developed into a second commercial and trade centre of over 100,000 sq.m., a 4-star hotel of about 30,000 sq.m., a shopping arcade of about 35,000 sq.m. and an office building of over 30,000 sq.m., etc. The total gross floor area is estimated to be 195,000 sq.m. (<i>Note 3</i>)</p> <p>Lot Nos. BY-(20)-47 and BY-(20)-48 are held under land use rights for terms expiring on 18 March 2044 and 14 April 2044 respectively, both for commercial uses.</p>	The property is vacant.	<p>RMB324,000,000</p> <p>(100% interest attributable to the Group)</p> <p>RMB324,000,000)</p> <p>(The land underlying the property, together with the remaining portion of Lot No. BY-(20)-48 and the whole of Lot No. BY-(20)-47, were acquired on 20 March 2004 and 15 April 2004 in a total consideration of approximately RMB133,925,551. The total costs expended on the property were RMB3,388,000.)</p>

Notes:

1.
 - i. Pursuant to State-owned Land Use Rights Grant Contract 20 March 2004 (the “1st Grant Contract”) issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) agreed to acquire the land use rights term of 40 years (from the date of the 1st Grant Contract) in a parcel of land located to the north of National Highway 301 with a site area of 307,827.5 sq.m. According to the 1st Grant Contract, the property is restricted to be used for commercial purposes and the construction works of which is to commence on or before 15 August 2004.
 - ii. Pursuant to State-owned Land Use Rights Grant Contract dated 15 April 2004 (the “2nd Grant Contract”) issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) agreed to acquire the land use rights term of 40 years (from the date of the 2nd Grant Contract) in a parcel of land located to the north of National Highway 301 with a site area of 414,997 sq.m. According to the 2nd Grant Contract, the property is restricted to be used for commercial purposes and the construction works of which is to commence on or before 15 August 2004.
 - iii. Pursuant to Certificate of State-owned Land Use (Document No. Sui Guo Yong (2004) Zi Di No. LS002) dated 14 April 2004 issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), the land use rights in the site with an area of 307,827.5 sq.m. (excluding the river area within the site) have been granted to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) for commercial uses for a term expiring on 18 March 2044.
 - iv. Pursuant to Certificate of State-owned Land Use (Document No. Sui Guo Yong (2004) Zi Di No. 0234) dated 21 July 2004 issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), the land use rights in the site with an area of 414,997 sq.m., in which the property forms part of have been granted to Suifenhe Shimao Development and Construction Co. Ltd. (綏芬河世茂開發建設有限公司) for commercial uses for a term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044.
2. The site area of the property is derived by subtracting the site area of First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期) (i.e. 38,010 sq.m.) and 5-star Hotel (No.1) (i.e. 33,924 sq.m.) from the total site area of Lot Nos.: BY-(20)-47 and BY-(20)-48 (i.e. 722,824.5 sq.m.), as evidenced by the relevant Construction Land Use Planning Permits and Certificates of State-owned Land Use.
3. The development plan is preliminary and is subject to finalisation upon completion of construction of Shimao International Commercial and Exhibition Centre (Phase I) and 5-star Hotel (No.1).
4. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:
 - i. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has obtained all the necessary approvals for its establishment, which is made in accordance with the laws of the PRC.
 - ii. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) has the legal rights to operate the business as permitted under the business licence, including real estate development, construction, leasing, sale, hotel management, property management, etc.
 - iii. Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) will legally obtain the land use rights in the property upon permission granted by State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳). There should be no legal impediment in obtaining such permission. No additional land premium is required to be paid in the above land acquisition. The abovementioned land use rights are not subject to any mortgage, encumbrance or third party interests.

- iv. Upon permission granted by State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳) as stated in paragraph iii above, Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) will have the legal rights to use, transfer, lease and mortgage the land use rights of the property.
- v. According to the laws of the PRC, if the permission as stated in paragraph iii. above cannot be obtained, State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局) may be deemed ultra vires in granting the land use rights of the property to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) and the abovementioned land grant may be considered invalid. In case the abovementioned land grant is considered to be valid, State-owned Land Resources Bureau of Heilongjiang Province (黑龍江省國土資源廳) may require State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局) to revise the land premium in the abovementioned land grant.
5. The land underlying the property, together with the remaining portion of Lot No. BY-(20)-48, comprising a total site area of 722,824.5 sq.m., were acquired by Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) on 20 March 2004 and 15 April 2004 in a total consideration of approximately RMB133,925,551.
6. A summary of major certificates/approvals is shown as follows:
- | | |
|--|-----|
| i. State-owned Land Use Rights Grant Contract | Yes |
| ii. Certificate of State-owned Land Use | Yes |
| iii. Permission Certificate for Construction Land Use Planning | No |
| iv. Permission Certificate for Construction Works Planning | No |
| v. Permit for Commencement of Construction Works | No |
| vi. Pre-sale Permit | No |
| vii. Construction Works Completion Inspection Report | No |

The Chinese- Russian Suifenhe-Pogranichny Intertrading Zone Project

The PRC Party's Construction Project

Commercial Centre (Phase I)

Construction Cost Report

(As at 30 April 2005)

Prepared by: Widnell Limited

Construction Cost Report**The Chinese- Russian Suifenhe-Pogranichny Intertrading Zone Project – The PRC Party's Commercial and Exhibition Centre (Phase I) Project****1. Summary***1.1 Project Overview*

Project Name:	The Chinese- Russian Suifenhe-Pogranichny Intertrading Zone – The PRC Party's Commercial and Exhibition Centre (Phase I)
Developer:	Suifenhe Shimao Development & Construction Company Limited
Main Contractors:	Mudanjiang Sixth Construction Co. Ltd
Architects:	Heilongjiang Provincial Institute of Architectural Design and Research and others
Construction Floor Area:	83,178 square meters
Number of Floors:	1 floor underground and 1 to 4 floors above ground

1.2 Report Basis

The preparation of valuation on the completed construction and unexpended construction cost of the project is based on the actual situation of the construction site as at 30 April 2005.

1.3 Breakdown of the Valuation on Completed Construction and Unexpended Construction Cost

	<i>RMB</i>
1.3.1 Estimated construction cost:	261,220,000
1.3.2 Valuation on completed construction as of 30 April 2005:	64,949,000
1.3.3 Valuation on unexpended construction cost as of 30 April 2005:	196,271,000

2. Cost Breakdown of Completed Construction and Unexpended Construction Cost

Item Number	Item Name	Construction Floor Area (M2)	Construction Cost (RMB/M2)	Estimated Construction Cost (RMB)	Estimated Construction Cost for the Entire Municipal Auxiliaries (excluding the municipal auxiliaries within red line for each item) (RMB)	Valuation of Completed Construction only for Municipal Auxiliaries as of 30 April 2005 (RMB)	Valuation of Completed Construction only for Entire Municipal Auxiliaries (RMB)	Valuation of Unexpended Construction Cost as of 30 April 2005
	Phase I of Commercial and Exhibition Centre	83,178						
Items included:	a. preliminary-stage		15	1,285,000		97,000		1,188,000
	b. structure and furnishing		1,902	158,223,000		55,934,000		102,289,000
	c. integrated machinery and electricity		630	52,418,000		6,660,000		45,758,000
	d. overall outdoor area		47	3,930,000		0		3,930,000
	e. municipal auxiliaries		365	30,358,000		474,000		29,884,000
	f. consultation fees		95	7,895,000		1,784,000		6,111,000
	g. unforeseeable costs		85	7,111,000		0		7,111,000
	Total	83,178	3,140	261,220,000	30,358,000	64,949,000	72,000	196,271,000

The above costs do not include:

1. land costs
2. project management fees
3. furnishing costs for non-public portions of shopping mall and office building
4. legal costs
5. offices for property exhibitions and sales
6. loan interests

APPENDIX VI SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME

1. Summary of terms

The following is a summary of the principal terms of the New Share Option Scheme. It does not form part of, nor is it intended to be part of the rules of the New Share Option Scheme and it should not be taken as affecting the interpretation of the rules of the New Share Option Scheme. The Directors reserve the right at any time prior to the SGM to make such amendments to the New Share Option Scheme as they may consider necessary or appropriate provided that such amendments do not conflict with the summary in this Appendix in any material respect:

(a) Purpose of the scheme

The purpose of the New Share Option Scheme is to enable the Company to grant options to selected employees and Directors as incentive or rewards for their contribution to the Group.

(b) Who may join

The Board may, at its discretion, invite:-

- (i) any full-time employee of any member of the Group;
- (ii) directors (including non-executive directors and independent non-executive directors) of any member of the Group; and
- (iii) any Business Associate who, at the sole determination of the Board, have contributed or will contribute to the Group.

(c) Subscription price of Shares

The subscription price for Shares under the New Share Option Scheme will be a price determined by the Board and notified to each grantee and will be the highest of:

- (i) the average closing price of the Shares on the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer for the grant of option provided that in the event of fractional prices, the subscription price per Share shall be rounded upwards to the nearest whole cent;
- (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer for the grant of option; and
- (iii) the nominal value of a Share.

APPENDIX VI	SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME
--------------------	--

A nominal consideration of HK\$1.00 is payable at the time of the acceptance of the grant of the option. An offer for the grant of an option may only be accepted within the time limit specified in the offer letter (which shall not be later than twenty-eight (28) days from the offer date).

(d) *Maximum number of Shares*

- (i) The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company will not exceed 30% of the total number of issued Shares from time to time.
- (ii) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the New Share Option Scheme and any other share option scheme of the Company) to be granted under the New Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed such number of Shares as shall represent 10% of the Shares in issue as at the date of adoption of the New Share Option Scheme (“General Scheme Limit”) (being 82,763,988 Shares (based on the number of Shares in issue as at the Latest Practicable Date)).
- (iii) Subject to paragraph (i) above and without prejudice to paragraph (iv) below, the Company may issue a circular to its shareholders to seek approval from its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the New Share Option Scheme and any other share option scheme of the Company) previously granted under the New Share Option Scheme and any other share option scheme of the Company will not be counted. The circular sent by the Company to its shareholders shall contain the information required under Rule 17.02(2) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (iv) Subject to paragraph (i) above and without prejudice to paragraph (iii) above, the Company may seek separate shareholders’ approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in paragraph (iii) above, to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its

shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(e) *Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme (including exercised, outstanding and cancelled options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company as at the date of grant of options ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders' approval in general meeting of the Company with such participant and his/her associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(f) *Time of exercise of option and performance target*

An option may be exercised in accordance with the terms of the offer letter for the grant of an option and of the New Share Option Scheme at any time during a period commencing on or after the date on which the option is accepted and deemed to be granted and expiring on a date to be notified by the Board to each grantee which shall not be more than 10 years from the date on which the option is accepted and deemed to be granted. According to the New Share Option Scheme, there is no general requirement on minimum holding period or performance targets before an option may be exercised. Unless the Directors otherwise determine to provide restrictions on the exercise of an option during the relevant option period and state in the offer letter to a grantee, a grantee is not required to achieve any performance targets or to hold an option for a minimum period before the option can be exercised.

(g) *Rights are personal to grantee*

An option is personal to the grantee and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or attempt to do so.

APPENDIX VI	SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME
--------------------	--

(h) Rights on ceasing employment

If the grantee of an option who is also a director or an employee of a member of the Group ceases to be a director or an employee of a member of the Group by reason of his/her resignation or retirement from employment or appointment or the expiry of his/her employment or appointment contract or the termination of his/her employment or appointment on grounds other than death or certain other grounds specified in paragraph (k) below, the grantee may exercise the option up to the grantee's entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of three months following the date of such cessation, which date shall be the last actual working day with the relevant company in the Group whether salary is paid in lieu of notice or not, or such longer period as the Board may determine, failing which the option will lapse.

(i) Rights on death

If the grantee of an option who is also a director or an employee of a member of the Group dies before exercising the option in full, and none of certain events specified in paragraph (k) below which would be a ground for termination of his or her employment or appointment arises, his or her personal representatives may exercise the option (to the extent which has become exercisable and not already exercised) within a period of 12 months from the date of death, or such longer period as the Board may determine, failing which the option will lapse.

(j) Rights on termination/expiry of contract of Business Associate

If the grantee of an option who is a Business Associate under a fixed term contract ceases to be a Business Associate by reason of termination or expiry of the term of the relevant fixed term contract without any extension or renewal by the Group for reasons other than on one or more of the grounds specified in sub-paragraphs (vi) and (vii) of paragraph (v) below or on the death of such grantee, the grantee may exercise the option up to the grantee's entitlement at the date of cessation within the period of 3 months following the date of such cessation, which date shall be the date of termination or expiry of the relevant fixed term contract, or such longer period as the Board may determine, failing which the option will lapse.

If the grantee of an option who is a Business Associate not under a fixed term contract ceases to be a Business Associate by reason of the grantee ceasing to provide any further advisory or consultancy or other services, support, assistance or contribution to the Group as may be determined by the Board and notified to such grantee within one year after the provision of its last services, support, assistance or contribution to the Group for reasons other than on one or more of the grounds specified in sub-paragraphs (vi) and (vii) of paragraph (v) below or on the death of such grantee, the grantee may exercise the option up to the grantee's entitlement at

APPENDIX VI	SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME
--------------------	--

the date of cessation within the period of 3 months following the date of such cessation, which date shall be the date of the aforesaid written notification to the grantee, or such longer period as the Board may determine, failing which the option will lapse.

(k) Rights on dismissal

If the grantee of an option who is also a director or an employee of a member of the Group ceases to be a director or an employee of a member of the Group by reason that he has been guilty of misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty, his/her option will automatically lapse and will not in any event be exercisable on the date of his/her cessation of the employment or appointment.

(l) Effects of alterations to capital

In the event of any reduction of capital, sub-division or consolidation of the share of the Company or capitalisation issue or rights issue whilst any option remains exercisable, corresponding adjustment (if any) certified by an independent financial adviser or the auditors for the time being of the Company as fair and reasonable will be made to the number of shares subject to options and/or exercise price of the option granted so far as unexercised, provided that no such adjustment shall be made so that a Share would be issued at less than its nominal value. Any such adjustment shall be made on the basis that the grantee shall have as nearly as possible the same proportion of the issued share capital of the Company for which the grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustments and that the aggregate subscription price to be paid by a grantee after such alteration on a full exercise of the option shall remain as nearly as possible the same as he or she has to pay before such alterations.

(m) Rights on winding up

In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall, on the same date as it despatches such notice to convene the shareholders' meeting, give notice thereof to the grantee and the grantee (or his or her legal personal representative(s)) may by notice in writing to the Company (such notice to be received by the Company not later than five business days prior to the proposed date of the shareholders' meeting) exercise the option (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given and the Company shall as soon

as practicable and in any event no later than 5:00 p.m. on the business day immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares which falls to be issued on such exercise. Any options shall, to the extent that they have not been so exercised, lapse and determine.

(n) *Rights on general offer*

If a general (or partial) offer (whether by way of take-over offer, share re-purchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), the Company shall use its best endeavours to procure that an appropriate offer is extended to all the grantees (on comparable terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, as shareholders of the Company). If such general (or partial) offer becomes or is declared unconditional, the grantee (or his or her legal personal representative(s)) shall be entitled to exercise the option (to the extent which has become exercisable and not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company at any time within thirty (30) days after the date on which such general (or partial) offer becomes or is declared unconditional. Any options shall, to the extent that they have not been so exercised, lapse and determine.

(o) *Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees on the same date as it despatches to each member or creditor of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee (or his/her legal personal representative(s)) shall be entitled to exercise all or any of his/her options in whole or in part (to the extent which has become exercisable and not already exercised) at any time not later than five business days prior to the date of the meeting directed to be convened by the court for the purposes of considering such compromise or arrangement by notice in writing to Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as practicable and, in any event, no later than 5:00 p.m. on the business day immediately prior to the date of the proposed general meeting convened for approving such compromise or arrangement, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the date of such meeting which approves such compromise or arrangement, the rights of all grantees to exercise their respective options shall forthwith be suspended on terms provided in the New Share Option Scheme. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

APPENDIX VI	SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME
--------------------	--

(p) *Ranking of Shares*

- (i) The Shares to be allotted upon the exercise of an option will be subject to the Company's bye-laws for the time being in force and will rank pari passu with the fully paid Shares in issue on the date on which Shares are allotted pursuant to the option granted and exercised (the "Allotment Date") and in particular will entitle the holders thereof to participate in voting, transfer and other rights including those arising on liquidation of the Company, all dividends or other distributions declared paid or made on or after the Allotment Date, other than any dividends or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor is before the Allotment Date.
- (ii) Unless the context otherwise requires, references to "Shares" in the New Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

(q) *Period of New Share Option Scheme*

The New Share Option Scheme will be valid for a period of 10 years commencing on the date of its adoption, after which period no further options will be granted but the provisions of the New Share Option Scheme shall in all other respects remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto and options which are granted during the life of the New Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(r) *Conditions of the New Share Option Scheme*

The New Share Option Scheme is conditional on (i) the passing of an ordinary resolution to terminate the Existing Share Option Scheme and to approve and adopt the New Share Option Scheme by the shareholders of the Company in general meeting and (ii) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, such number of Shares to be issued by the Company pursuant to the exercise of options which may be granted under the New Share Option Scheme, representing 10% of the Shares in issue as at the date of adoption of the New Share Option Scheme.

APPENDIX VI	SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME
--------------------	--

To provide for flexibility of the New Share Option Scheme, there is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before it can be exercised, and there is no strict criteria for the determination of the exercise price (subject to Rule 17.03(9) of the Listing Rules regarding the basis of determination of exercise price), subject to the terms or restrictions which the Board may impose in respect of each offer for the grant of option from time to time.

(s) *Alteration to New Share Option Scheme*

The rules of the New Share Option Scheme may be altered in any respect by a resolution of the Board save and except the following which shall be approved by the shareholders of the Company in general meeting:

- (i) alteration to the terms and conditions of the New Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantees;
- (ii) alteration to the terms and conditions of the New Share Option Scheme which are of a material nature or any alteration to the terms and conditions of options granted except where the alterations take effect automatically under the existing terms of the New Share Option Scheme; and
- (iii) any change to the authority of the Directors or scheme administrators in relation to any alteration to the terms of the New Share Option Scheme must be approved by shareholders of the Company in general meeting.

The terms of the New Share Option Scheme and/or any options amended pursuant to this paragraph must comply with the applicable requirements of the Listing Rules. In addition, no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of shareholders of the Company under the bye-laws for the time being of the Company for a variation of the rights attached to the Shares.

(t) *Granting options to connected persons*

Any grant of options to a Director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by all the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is a proposed grantee of the options).

APPENDIX VI	SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME
--------------------	--

If the Company proposes to grant options to a substantial shareholder or an independent non-executive Director or any of their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) under the New Share Option Scheme and any other share option schemes of the Company to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue as at the date of such further proposed grant; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange at the date of offer for each grant, in excess of HK\$5,000,000.00;

such further grant shall be subject to the approval of the shareholders of the Company in general meeting on a poll at which all connected persons (as defined in the Listing Rules) for the time being of the Company shall abstain from voting in favour at such general meeting. In addition, the Company has to comply with the requirements of the Rules 13.39(5), 13.40, 13.41 and 13.42 of the Listing Rules. The date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

In addition, shareholders' approval must be obtained for any change in the terms of options granted to a grantee who is a substantial shareholder of the Company or an independent non-executive Director or their respective associates.

The requirements for the granting of options to a Director or chief executive of the Company set out in this paragraph(s) do not apply where the grantee is only a proposed Director or chief executive of the Company.

(u) Disclosure in annual and interim report

The Company will disclose details of the New Share Option Scheme in its annual and interim reports including the information as required under Rules 17.07, 17.08 and 17.09 of the Listing Rules.

(v) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the option period referred to in paragraph (f) above;
- (ii) the expiry of the periods or dates referred to in paragraphs (h), (i), (j), (m) and (n) above;

- (iii) subject to the compromise or arrangement as referred to in paragraph (o) above becoming effective, the date on which such compromise or arrangement becomes effective;
- (iv) (without prejudice to the rights of a grantee under paragraph (m) above) the date of the commencement of the winding-up of the Company;
- (v) the date on which the grantee (if a director or an employee of a member of the Group) ceases to be a director or an employee of a member of the Group by reason of termination of his/her appointment or employment on any one or more of the grounds that he/she has been guilty of misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty;
- (vi) the date on which, where the grantee is a Business Associate, its contract with the Group is terminated by reason of breach of contract on the part of such grantee;
- (vii) the date on which the grantee being a Business Associate appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has become insolvent, or has made any arrangements or composition with its creditors generally, or ceases or threaten to cease to carry on its business, or is wound up, or has an administrator or liquidator being appointed for the whole or any part of its undertaking or assets, or has been convicted of any criminal offence involving integrity or honesty; and
- (viii) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee has committed a breach of paragraph (g) above.

(w) *Termination of the New Share Option Scheme*

The Directors may terminate the New Share Option Scheme, subject to shareholders' approval in a general meeting, at any time, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the New Share Option Scheme.

(x) *Cancellation of options*

Any cancellation of options granted but not exercised shall be approved by the shareholders of the Company in a general meeting, with grantees and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation shall be taken by poll. If the Company grants new options to a grantee whose options are cancelled, the Company may only grant such new options if there are available unissued options (excluding the cancelled options) within the limit as mentioned in paragraph (d) above.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries and that to the best of their knowledge and belief there are no other facts the omission of which would made any statement therein misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date and the Shares to be allotted and issued upon full conversion of the Convertible Note were as follows:

	Number of Shares	HK\$
<i>Authorised:</i>	<u>10,000,000,000 Shares</u>	<u>1,000,000,000.00</u>
<i>Issued and fully paid:</i>	<u>827,639,886 Shares</u>	<u>82,763,988.60</u>
<i>To be allotted and issued upon full conversion of the Convertible Note:</i>	<u>185,185,185 Conversion Shares</u> (subject to adjustment)	<u>18,518,518.50</u>

All of the Shares currently in issue and to be issued rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and return of capital. No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange.

3. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the

SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Notes:

1. These 185,185,185 Shares are the potential Shares which are issuable to Dynamic Keen Developments Limited, i.e. the Vendor, assuming full conversion of the Convertible Note. Since the entire issued share capital of Dynamic Keen Developments Limited is wholly owned by Mr. Hui, Mr. Hui is taken to be interested in these 185,185,185 Shares under the SFO.
2. 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 Group International Limited 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 The WM Hui Family Trust, a discretionary trust set up by Mr. Hui, a director of the Company, 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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have 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 he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests in assets

Save for the interest of Mr. Hui in the S&P Agreement, none of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2004, being the date to which the latest published audited accounts of the Company were made up.

Interests in contract or arrangement

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

Service contracts

None of the Directors has entered into any service agreements with any member of the Group which do not expire or cannot be terminated by the employer within one year without payment of compensation other than statutory compensation.

Substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Director or chief executive of the Company, the persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares of the Company or other members of the Group 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 were, directly or indirectly, interested in 10% or more of the nominal value of shares of any class in the Company or other members of the Group were as follows:

Name	Number of shares held	Percentage of shareholding
Dynamic Keen Developments Limited	185,185,185 (<i>Note 1</i>)	22.38%
Perfect Zone International Limited	618,571,397 (<i>Note 2</i>)	74.74%
Overseas Investment Group International Limited	618,571,397 (<i>Note 2</i>)	74.74%
Trident Corporate Services (B.V.I.) Limited (formerly known as Ansbacher (BVI) Limited)	618,571,397 (<i>Note 2</i>)	74.74%

Notes:

1. These 185,185,185 Shares are the potential Shares which are issuable to Dynamic Keen Developments Limited, i.e. the Vendor, assuming full conversion of the Convertible Note.

2. 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 Group International Limited 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 The WM Hui Family Trust, a discretionary trust set up by Mr. Hui for the benefit of his wife and children.

Save as disclosed herein, there is no person known to the Directors or chief executive of the Company, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company 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 was directly or indirectly interested in 10% or more of the nominal value of any class of Shares of the Company or any other members of the Group.

4. THE PRIVATE GROUP'S CURRENT PRINCIPAL BUSINESS

Mr. Hui and his associates currently hold property development interests outside the Group, including the property development and investment interests in the PRC 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 Gross Floor Area (m ²)	SPHL's Interest in the Project	Estimated Completion Year of the Whole Project
Shimao Riviera Garden	Shanghai	Residential, Retail	883,217	100% ⁽²⁾	2007
Shimao International Plaza	Shanghai	Hotel, Retail	170,935	100%	2006
Shimao She Shan	Shanghai	Residential, Hotel	135,416	100%	2006
Shimao North Bund	Shanghai	Residential, Hotel	100,472	100%	2006
Shimao Olympic Garden	Beijing	Residential, Retail	260,072	80%	2007
Shimao Nanjing	Nanjing	Residential, Retail, Hotel	1,460,389	50%	2010
Shimao Fuzhou	Fuzhou	Residential, Retail	287,717	50%	2006
Shimao Harbin	Harbin	Residential, Retail	1,703,537	100%	2007
Shimao Kunshan	Kunshan	Residential, Retail	1,270,600	50.5% ⁽²⁾	2010

Project	Location	Planned Use ⁽¹⁾	Total Estimated Planned Gross Floor Area (m ²)	SPHL's Interest in the Project	Estimated Completion Year of the Whole Project
Shimao Changshu	Changshu	Residential, Retail, Office, Hotel	1,970,000	100%	2008
Shimao Wuhan	Wuhan	Residential, Retail, Office, Hotel	1,907,000	100%	2010

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 by the SPHL Group.

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

Project	Location	Planned Use ⁽¹⁾	Approximate Total Site Area/Completed Gross Floor Area (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

Project	Location	Planned Use ⁽¹⁾	Approximate	Status
			Total Site Area/Completed Gross Floor Area (m ²) ⁽¹⁾	
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 gross floor area.

5. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. EXPERTS AND CONSENTS

The qualifications of the experts who have given opinions in this circular are as follows:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
Savills (Hong Kong) Limited	Independent Professional Property Valuer
Platinum Securities Company Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Widnell Limited	Independent Professional Quantity Surveyors

As at the Latest Practicable Date, none of PricewaterhouseCoopers, Savills (Hong Kong) Limited, Platinum and Widnell Limited had any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2004, being the date to which the latest published audited accounts of the Company were made up.

PricewaterhouseCoopers, Savills (Hong Kong) Limited, Platinum and Widnell Limited have given and have not withdrawn their respective written consents to the issue of this circular with copies of their reports, valuation or letters (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

1. the sale and purchase agreement dated 19 February 2005 entered into by the Vendor as vendor, the Company as purchaser and Mr. Hui as guarantor relating to the sale and purchase of the entire issued share capital of and a loan due to the Vendor by Value Ahead for an aggregate consideration of HK\$496,220,000; and
2. a non-competition undertaking dated 19 February 2005 entered into between the Company, Mr. Hui, Shimao Property Holdings Limited, Overseas Investment Group International Limited, Mr. Xu Shiyong, 上海世茂企業發展有限公司 (Shanghai Shimao Enterprises Development Co., Ltd.) and 上海世茂股份有限公司 (Shanghai Shimao Co., Ltd.) pursuant to which, inter alia, the parties agree to delineate their respective businesses on the terms and conditions set out therein.

8. GENERAL

- (a) The company secretary of the Company is Mr. Mok Chung Fu, Eric, *Solicitor*.
- (b) The qualified accountant of the Company is Mr. Yau Kwan Shan, Ringo, *FCCA, CPA*.
- (c) The Company's Hong Kong branch share registrar is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Sit, Fung, Kwong & Shum at 18th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including 13 June 2005:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2003 and 2004;
- (c) the accountants' report on the Value Ahead Group, the text of which is set out in Appendix I to this circular;
- (d) the letter on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (e) the valuation reports prepared by Savills (Hong Kong) Limited, the texts of which are set out in Appendix IV to this circular;
- (f) the quantity surveyors' report prepared by Widnell Limited, the texts of which are set out in Appendix V to this circular;
- (g) the letter from Platinum, the text of which is set out on pages 40 to 76 of this circular;
- (h) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;
- (i) the written consents referred to in the paragraph headed "Experts and Consents" in this Appendix; and
- (j) the New Share Option Scheme.



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 "**Meeting**") of Shimao China Holdings Limited (the "**Company**") will be held at the Conference Room of the Company's principal office at Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai Hong Kong on Monday, 13 June 2005 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **"THAT:**

- (a) the sale and purchase agreement dated 19 February 2005 entered into between Dynamic Keen Developments Limited (the "**Vendor**") as vendor, the Company as purchaser and Mr. Hui Wing Mau as guarantor (the "**Agreement**") (a copy of which is produced to the Meeting marked "A" and signed by the chairman of the Meeting for the purpose of identification) whereby, amongst others, the Vendor conditionally agreed to sell to the Company the entire issued share capital of and a loan due to the Vendor by Value Ahead Investments Limited on completion of the Agreement at an aggregate consideration of HK\$496,220,000 to be satisfied as to HK\$250,000,000 by the Company issuing a redeemable convertible note of a principal amount of HK\$250,000,000 (the "**Convertible Note**") and as to the balance of HK\$246,220,000 by the Company issuing a promissory note of a principal amount of HK\$246,220,000 (the "**Promissory Note**") in favour of the Vendor on and subject to the terms and conditions of the Agreement, be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved;
- (b) the directors of the Company be and are hereby authorised to issue the Convertible Note and the Promissory Note on and subject to the terms and conditions of the Agreement and to allot and issue shares of the Company upon the exercise of the conversion rights attached to and in accordance with the terms and conditions of the Convertible Note; and

NOTICE OF SGM

- (c) the board of directors of the Company be and are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and supplemental agreements or deeds (including without limitation deed of tax indemnity) whether under hand or seal of the Company and to do all such things and take all such action as they may consider necessary or desirable for the purpose of completing the transactions contemplated under the Agreement with such changes as they may consider necessary, desirable or expedient.”
2. **“THAT:**
- (a) the operation of the existing share option scheme of the Company which was adopted by the Company by a written resolution of its sole shareholder on 24 June 1998 (the **“Existing Share Option Scheme”**) be terminated and that no further options will be granted under the Existing Share Option Scheme but in all other respects the provisions of the Existing Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (if any) granted prior thereto or otherwise as may be required in accordance with the provisions of the Existing Share Option Scheme and options (if any) granted prior to such termination shall continue to be valid and exercisable in accordance with the Existing Share Option Scheme; and
- (b) the rules of a new share option scheme of the Company (the **“New Share Option Scheme”**) (a copy of which is produced to the Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification) be and are hereby approved and adopted and that the board of directors of the Company be and are hereby authorized to:
- (1) administer the New Share Option Scheme including granting options to subscribe for new shares of the Company (the **“New Shares”**) to eligible participants under the New Share Option Scheme;
 - (2) modify and/or amend the rules of the New Share Option Scheme from time to time subject to the provisions of such rules;
 - (3) issue and allot from time to time such number of New Shares as may be required to be issued pursuant to the exercise of the options which may be granted under the New Share Option Scheme; and

NOTICE OF SGM

- (4) make application at the appropriate time to The Stock Exchange of Hong Kong Limited, and any other stock exchange upon which the New Shares may for the time being be listed, for listing of, and permission to deal in, the New Shares which may thereafter from time to time be issued and allotted pursuant to the exercise of options which may be granted under the New Share Option Scheme.”

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

Hong Kong, 25 May 2005

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or, if he holds two or more shares, more proxies to attend and vote on his behalf. 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 Centre, 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 Meeting or any adjournment thereof and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
3. A form of proxy for use at the special general meeting is enclosed with the circular despatched to the shareholders of the Company.
4. As ordinary resolution no. 1 is subject to independent shareholders' approval, the votes of shareholders to be taken at the above Meeting to approve such ordinary resolution shall be taken on a poll.

Chairman and Non-Executive Director

Hui Wing Mau

Executive Directors

Chung Shui Ming, Timpson

Hui Mei Mei, Carol

Hui Sai Tan, Jason

Tung Chi Shing

Chan Loo Shya

Independent Non-Executive Directors

Lee Chack Fan

Liu Hing Hung

Zhu Wenhui