



Shimao International Holdings Limited

Interim Financial Information 2005



CORPORATE INFORMATION

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

EXECUTIVE COMMITTEE

Hui Wing Mau
Chung Shui Ming, Timpson
Hui Mei Mei, Carol

AUDIT COMMITTEE

Lee Chack Fan
Liu Hing Hung
Zhu Wenhui

REMUNERATION COMMITTEE

Hui Mei Mei, Carol
Lee Chack Fan
Liu Hing Hung

QUALIFIED ACCOUNTANT

Yau Kwan Shan

COMPANY SECRETARY

Yau Kwan Shan

AUDITORS

PricewaterhouseCoopers

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 0649

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications, Hong Kong Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

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REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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The Board of Directors (the "Board" or the "Directors") of Shimao International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2005 together with the comparative figures as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Note	2005 HK\$'000	Restated 2004 HK\$'000
Turnover	2		
Company and subsidiaries		6,061	3,423
Share of an associated company		30,962	293,212
		37,023	296,635
Company and subsidiaries			
Turnover	2	6,061	3,423
Cost of sales		(940)	(177)
		5,121	3,246
Other operating income		20,636	1,801
Administrative expenses		(20,459)	(13,283)
Other operating expenses		(416)	(32)
		4,882	(8,268)
Operating profit/(loss)	3	4,882	(8,268)
Finance costs	4	(2,703)	(1,358)
Share of profit of an associated company		8,849	108,491
		11,028	98,865
Profit before taxation		11,028	98,865
Taxation	5	(1,849)	(846)
		9,179	98,019
Profit attributable to shareholders		9,179	98,019
Dividend	6	–	–
Basic earnings per share	7	HK1.11 cents	HK11.84 cents

UNAUDITED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2005

		30th June 2005 HK\$'000	Restated 31st December 2004 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Investment properties	8	222,000	220,000
Property, plant and equipment	8	196,107	98,206
Leasehold land and land use rights	8	857,783	288,982
Associated company	9	113,273	293,103
Other non-current assets	8	68,986	–
		1,458,149	900,291
Current assets			
Properties under development for sale		93,873	–
Completed properties held for sale		141,860	142,508
Trade receivables	10	718	104
Prepayments, deposits and other receivables		12,091	22,386
Bank balances and cash		36,420	18,359
		284,962	183,357
Total assets		1,743,111	1,083,648

UNAUDITED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30TH JUNE 2005

		30th June 2005 HK\$'000	Restated 31st December 2004 HK\$'000
	Note		
EQUITY			
Capital and reserves			
Share capital	11	82,764	82,764
Reserves	12	548,777	579,031
Total equity		631,541	661,795
Non-current liabilities			
Long-term bank loans	13	141,950	148,517
Promissory note	14	214,190	–
Convertible note	15	231,660	–
Amount received from Suifenhe Land Reserve Centre	16	114,065	–
Deferred taxation	17	204,692	61,389
		906,557	209,906
Current liabilities			
Trade payables	18	49,325	4,086
Advanced proceeds from customers		44,371	–
Other payables and accruals		51,521	16,485
Amount due to ultimate holding company		46,663	99,369
Amounts due to related companies		–	4,104
Current portion of long-term bank loans	13	13,133	13,133
Short-term bank loans, secured		–	34,770
Promissory notes	14	–	40,000
		205,013	211,947
Total liabilities		1,111,570	421,853
Total equity and liabilities		1,743,111	1,083,648
Net current assets/(liabilities)		79,949	(28,590)
Total assets less current liabilities		1,538,098	871,701

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Six months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Total equity as at 1st January, as previously reported	689,461	540,070
Change in accounting policy (<i>note 1 (b)(v)</i>)	(27,666)	(16,420)
Total equity as at 1st January, as restated	661,795	523,650
Issuance of convertible note, equity component	1,949	–
Payment of dividend	(41,382)	(49,658)
Profit for the period	9,179	98,019
Total equity as at 30th June	631,541	572,011

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Six months ended 30th June	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net cash used in operating activities	(9,247)	(39,775)
Net cash generated from investing activities	205,515	104,715
Net cash used in financing activities	(178,207)	(81,784)
Increase/(decrease) in cash and cash equivalents	18,061	(16,844)
Cash and cash equivalents at the beginning of period	18,359	25,502
Cash and cash equivalents at the end of period	36,420	8,658
Analysis of balances of cash and cash equivalents		
Bank balances and cash	36,420	8,658

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL INFORMATION

1 Principal accounting policies

(a) Basis of preparation and accounting policies

The unaudited condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies used in the preparation of the unaudited condensed interim financial information are consistent with those used in the annual accounts for the year ended 31st December 2004, except that the Group has changed certain of its accounting policies following its adoption of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods commencing on or after 1st January 2005.

(b) Changes in accounting policies

The adoption of the following HKFRSs, which include all HKASs and applicable Interpretations (“HKAS-Ints” and “HK-Ints”), that necessitates material changes in accounting policies or presentations of financial information are summarised as follows:

- (i) The adoption of HKAS 1 “Presentation of Financial Statements” has affected the presentation of share of net results after tax of an associated company.
- (ii) The adoption of HKAS 17 “Leases” has resulted in a change in accounting policy relating to leasehold land which was previously included in fixed assets and completed properties held for sale and carried at cost less accumulated depreciation and impairment and the lower of cost and net realisable value, respectively. In accordance with the provisions of HKAS 17, the leasehold land is regarded as operating leases and the lease premium and other costs for acquiring the leasehold land are amortised over the terms of the leases. The adoption of HKAS 17 does not have any material effect to the Group.
- (iii) The adoption of HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets” do not permit to amortise the goodwill on a straight-line basis over a period of not exceeding 20 years. Also, goodwill is tested annually for impairment, as well as when there are indications of impairment. If the cost of acquisition is less than the fair values of the net assets acquired, the difference is recognised directly in the profit and loss account as negative goodwill.
- (iv) The adoption of HKAS 40 “Investment Property” has resulted in a change in the accounting policy whereby changes in fair values of investment properties are recorded in the profit and loss account. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

The adoption of HKAS 40 has been applied retrospectively, however, there is no effect on the equity as at 1st January 2004 and 2005.

- (v) The adoption of HKAS - Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of carrying amount of assets through use. In prior years, carrying amount of assets was expected to be recovered through sale.

The adoption of HKAS-Int 21 has been applied retrospectively and comparatives presented have been restated to conform to the changed policy. The opening retained profit as at 1st January 2004 and 2005 have been decreased by HK\$11,870,000 and HK\$23,116,000 respectively. Capital reserve at 1st January 2004 and 2005 have also been decreased by HK\$4,550,000.

- (vi) The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", has set up the basis for recognition, measurement, derecognition and disclosure of financial instruments. Borrowings are recognised initially at fair value net of transaction costs incurred and subsequently stated at amortised cost. The fair value of the liability component of a convertible note is determined using a market interest rate for an equivalent non-convertible note and is recorded on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in reserves as an equity component of a convertible note.
- (vii) The adoption of Hong Kong Interpretation ("HK-Int") 3 "Revenue – Pre-completion Contracts for the Sale of Development Properties" has resulted in a change in accounting policy relating to the recognition of revenue from sales of properties under development in advance of completion. In prior years, sales of properties under development in advance of completion were recognised over the course of the development based on the proportion of construction work completed or if lower, the proportion of sales proceeds received. In accordance with HK-Int 3, sales of properties are recognised when the risk and rewards of the property have been passed to the customers.

2 Turnover and segment information

(a) Turnover

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

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Company and subsidiaries		
Rental income	6,061	3,423
Share of an associated company		
Sales of properties	30,962	293,212
	37,023	296,635

(b) *Segment information*

For management purposes, the Group is organised into two main 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

	Six months ended 30th June 2005			Total HK\$'000
	Property development HK\$'000	Property investment HK\$'000		
Segment turnover				
Company and subsidiaries	–	6,061		6,061
Share of an associated company	30,962	–		30,962
	<u>30,962</u>	<u>6,061</u>		<u>37,023</u>
Segment results	<u>(1,888)</u>	<u>4,354</u>		2,466
Other operating income, net				2,244
Corporate administrative expenses				(17,804)
Negative goodwill				17,976
Operating profit				4,882
Finance costs				(2,703)
Share of profit of an associated company	8,849	–		8,849
Profit before taxation				11,028
Taxation				(1,849)
Profit attributable to shareholders				<u>9,179</u>
	Property development HK\$'000	Property investment HK\$'000	Corporate items HK\$'000	Total HK\$'000
Capital expenditure	–	218	2,037	2,255
Amortisation of leasehold land and land use rights	–	–	1,693	1,693
Depreciation	–	–	2,063	2,063

Results

	Six months ended 30th June 2004			Total HK\$'000
	Property development HK\$'000	Property investment HK\$'000		
Segment turnover				
Company and subsidiaries	–	3,423		3,423
Share of an associated company	293,212	–		293,212
	<u>293,212</u>	<u>3,423</u>		<u>296,635</u>
Segment results	<u>(647)</u>	<u>1,601</u>		954
Other operating income, net				1,769
Corporate administrative expenses				<u>(10,991)</u>
Operating loss				(8,268)
Finance costs				(1,358)
Share of profit of an associated company	108,491	–		<u>108,491</u>
Profit before taxation				98,865
Taxation				<u>(846)</u>
Profit attributable to shareholders				<u>98,019</u>
	Property development HK\$'000	Property investment HK\$'000	Corporate items HK\$'000	Total HK\$'000
Capital expenditure	–	8,009	484	8,493
Amortisation of leasehold land and land use rights	–	–	448	448
Depreciation	<u>–</u>	<u>–</u>	<u>842</u>	<u>842</u>
Balance sheet				
	As at 30th June 2005			Total HK\$'000
	Property development HK\$'000	Property investment HK\$'000		
Assets				
Segment assets	608,093	596,044		1,204,137
Associated company	113,273	–		113,273
Unallocated corporate assets				<u>425,701</u>
				<u>1,743,111</u>
Liabilities				
Segment liabilities	228,779	46,519		275,298
Unallocated corporate liabilities				<u>836,272</u>
				<u>1,111,570</u>

	As at 31st December 2004		Total HK\$'000
	Property development HK\$'000	Property investment HK\$'000	
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			329,208
			<u>421,853</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:

	Six months ended 30th June 2005	
	Segment results HK\$'000	Capital expenditure HK\$'000
Hong Kong	(2,344)	2,027
Mainland China	11,523	228
	<u>9,179</u>	<u>2,255</u>
	Six months ended 30th June 2004	
	Segment results HK\$'000	Capital expenditure HK\$'000
Hong Kong	(12,743)	8,493
Mainland China	110,762	–
	<u>98,019</u>	<u>8,493</u>

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Total assets		
Hong Kong	539,313	564,092
Mainland China	1,203,798	519,556
	1,743,111	1,083,648

3 Operating profit/(loss)

	Six months ended 30th June 2005 HK\$'000		2004 HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:			
Crediting			
Negative goodwill on acquisition (<i>note 20 (a)</i>)	17,976	–	–
Fair value gain on investment properties	2,000	–	–
Gross rental income from investment properties	6,061	3,423	–
Interest income	69	1	–
Charging			
Staff costs (including directors' emoluments)			
Salaries and other benefits	7,401	5,854	–
Contribution to retirement benefits scheme	179	100	–
	7,580	5,954	–
Amortisation of leasehold land and land use rights	1,693	448	–
Depreciation	2,063	842	–
Outgoings in respect of investment properties	637	6	–

Generally, the Group's operating leases are for terms of within one year except for three (31st December 2004: three) long-term leases which are beyond five years. There is no contingent rent included in rental income for both years.

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
The future minimum rental income receivable under non-cancellable leases are as follows:		
Within one year	10,280	8,085
Between two and five years	25,745	23,882
After five years	26,526	28,827
	62,551	60,794

4 Finance costs

	Six months ended 30th June 2005 HK\$'000	2004 HK\$'000
Interest on bank loans	2,476	1,432
Interest on promissory notes wholly repayable within five years	227	300
	2,703	1,732
Amount capitalised in properties under development	-	(374)
	2,703	1,358

5 Taxation

	Six months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Income tax in the PRC		
Current	169	103
Deferred	1,680	743
	1,849	846

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 period. (2004: 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 established in the Pudong New Area of the PRC is required to pay income tax at a preferential rate of 15% (2004: 15%).

Share of taxation of an associated company for the six months ended 30th June 2005 of HK\$2,145,000 (2004: HK\$19,146,000) are included in the consolidated profit and loss account as share of profit of an associated company.

6 Dividend

At a meeting held on 22nd April 2005, the Board of directors proposed a final dividend of HK\$0.05 per ordinary share amounting to HK\$41,382,000 for the year ended 31st December 2004, which was paid on 10th June 2005 and has been reflected as an appropriation of retained profit for the six months ended 30th June 2005.

The Board does not recommend the payment of any interim dividend for the six months ended 30th June 2005 (2004: Nil).

7 Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$9,179,000 (2004: HK\$98,019,000) and 827,640,000 (2004: 827,640,000) ordinary shares in issue during the period.

There is no dilutive effect on the equity component of the convertible note.

8 Capital expenditure

	Investment properties <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>	Leasehold land and land use rights <i>HK\$'000</i>	Other non- current assets <i>HK\$'000</i>
Net book amounts				
At 31st December 2004 as previously reported	–	607,188	–	–
Reclassifications	220,000	(508,982)	288,982	–
As restated	220,000	98,206	288,982	–
Acquisition of a subsidiary	–	97,709	570,494	68,986
Additions	–	2,255	–	–
Fair value gain	2,000	–	–	–
Depreciation and amortisation	–	(2,063)	(1,693)	–
As at 30th June 2005	<u>222,000</u>	<u>196,107</u>	<u>857,783</u>	<u>68,986</u>
At 31st December 2003 as previously reported				
Reclassifications	–	530,265	–	–
	474,000	(513,469)	39,469	–
As restated	474,000	16,796	39,469	–
Additions	8,009	484	–	–
Reclassification	(268,009)	82,000	186,009	–
Depreciation and amortisation	–	(842)	(448)	–
As at 30th June 2004	<u>214,000</u>	<u>98,438</u>	<u>225,030</u>	<u>–</u>

9 Associated company

As at 30th June 2005, 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.

Set out below is a summary of financial information of the associated company entity for the period ended 30th June 2005:

Results

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Turnover	61,924	586,424
Profit before taxation	21,987	255,274
Taxation	4,289	38,292
Profit after taxation	17,698	216,982
Dividend paid	377,359	226,416
Attributable to the Group		
Profit before taxation	10,994	127,637
Taxation	2,145	19,146
Profit after taxation	8,849	108,491
Dividend received	188,679	113,208

Net assets

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Non-current assets	2,957	3,194
Current assets	408,953	989,976
Current liabilities	(185,364)	(406,963)
	226,546	586,207
Net assets attributable to the Group	113,273	293,103

- (a) As at 31st December 2004, Shimao Hubin had provided guarantees amounting to HK\$1,008 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 was responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and Shimao Hubin was entitled to take over the legal title and possession of the related properties. The guarantees were released during the period.
- (b) Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the regulations on 27th January 1995 in the PRC, effective from 1st January 1994, all gains arising from the transfer of real estate properties in the PRC 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 to 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 has 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 LAT amounting to approximately HK\$190.6 million (31st December 2004: HK\$157.5 million) in relation to the sales recognised on or before 30th June 2005.

10 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:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Current	718	29
Over 90 days	–	75
	718	104

11 Share capital

	Number of ordinary shares of HK\$0.1 each '000	HK\$'000
Authorised:		
At 31st December 2004 and 30th June 2005	10,000,000	1,000,000
Issued and fully paid:		
At 31st December 2004 and 30th June 2005	827,640	82,764

12 Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Convertible note- equity component HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1st January 2005, as previously reported	-	104,478	19,543	1,348	132,093	-	349,235	606,697
Change in accounting policy								
- HKAS 40 (note 1(b)(iv))	-	-	-	(1,348)	(132,093)	-	133,441	-
- HKAS-Int 21 (note 1(b)(vi))	-	-	(4,550)	-	-	-	(23,116)	(27,666)
As restated	-	104,478	14,993	-	-	-	459,560	579,031
Issuance of convertible note	-	-	-	-	-	1,949	-	1,949
Payment of final dividend	-	-	-	-	-	-	(41,382)	(41,382)
Profit for the period	-	-	-	-	-	-	9,179	9,179
At 30th June 2005	-	104,478	14,993	-	-	1,949	427,357	548,777
At 1st January 2004, as previously reported	318,290	47,654	19,543	68,156	-	-	3,663	457,306
Change in accounting policy								
- HKAS 40 (note 1(b)(iv))	-	-	-	(68,156)	-	-	68,156	-
- HKAS-Int 21 (note 1(b)(vi))	-	-	(4,550)	-	-	-	(11,870)	(16,420)
As restated	318,290	47,654	14,993	-	-	-	59,949	440,886
Reduction of share premium	(318,290)	106,482	-	-	-	-	211,808	-
Payment of special dividend	-	(49,658)	-	-	-	-	-	(49,658)
Profit for the period	-	-	-	-	-	-	98,019	98,019
At 30th June 2004	-	104,478	14,993	-	-	-	369,776	489,247

13 Long-term bank loans

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Secured bank loans	155,083	161,650
Current portion included in current liabilities	(13,133)	(13,133)
	141,950	148,517

The Group's long-term bank loans were repayable as follows:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Within one year	13,133	13,133
Between one and two years	13,133	13,133
Between two and five years	39,400	39,400
After five years	89,417	95,984
	155,083	161,650

14 Promissory notes

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Issued to:		
A related company	214,190	30,000
Ultimate holding company	–	10,000
	214,190	40,000

The promissory note with principal amount of HK\$246,220,000 are unsecured, bear interest at 2.0% per annum and wholly repayable on 24th June 2009. The outstanding balance at 31st December 2004 was fully repaid during the period.

15 Convertible note

The Company issued a redeemable convertible note in the aggregate amount of HK\$250,000,000 on 24th June 2005. The note matures on the second anniversary of the date of issue at their nominal value of HK\$250,000,000 or can be converted into shares at the holder's option at a conversion price of HK\$1.35 per share after the first anniversary of the date of issue up to the maturity date, or redeemed at the option of the Company. The 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 note can be assigned or transferred in respect of such entire outstanding principal amount.

The fair values of the liability component and the equity conversion component were determined at issuance of the note (*note 20 (a)*).

16 Amount received from Suifenhe Land Reserve Centre ("SLRC")

Pursuant to two agreements dated 18th March 2004 and 21st July 2004 entered ("Agreements"), the Group was appointed to construct the ancillary facilities and infrastructure surrounding the area of the Intertrading Zone on behalf of the Municipality of Suifenhe. An aggregate balance of HK\$116,807,000 was received in advance from SLRC in 2004, 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 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 30th June 2005, the construction costs incurred amounted to approximately HK\$2,742,000.

17 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 period are as follows:

	Assets/(liabilities)			Total HK\$'000
	Tax losses HK\$'000	Accelerated depreciation allowances HK\$'000	Revaluation HK\$'000	
At 1st January 2005, as previously reported	914	(4,955)	(29,682)	(33,723)
Change of accounting policy – HKAS-Int 21 (note 1(b)(v))	–	–	(27,666)	(27,666)
At 1st January 2005, as restated	914	(4,955)	(57,348)	(61,389)
Acquisition of a subsidiary	–	–	(141,623)	(141,623)
Transfer to profit and loss account	(792)	(222)	(666)	(1,680)
At 30th June 2005	122	(5,177)	(199,637)	(204,692)
At 1st January 2004, as previously reported	2,610	(4,695)	(29,179)	(31,264)
Change of accounting policy – HKAS-Int 21 (note 1(b)(v))	–	–	(16,420)	(16,420)
At 1st January 2004, as restated	2,610	(4,695)	(45,599)	(47,684)
Transfer to profit and loss account	(1,696)	(260)	(11,749)	(13,705)
At 31st December 2004	914	(4,955)	(57,348)	(61,389)

18 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 30th June 2005, most of the Group's trade payables were current within their respective terms of credit and there were no significant overdue amounts.

19 Commitment

At 30th June 2005, the Group had the following capital commitments in respect of property, plant and equipment:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Contracted but not provided for	151,447	1,926

20 Significant related party transactions

- (a) On 19th February 2005, the Company entered into a sale and purchase agreement with Dynamic Keen Developments 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 Investments 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.

Chinese border of the Intertrading Zone

Pursuant to an agreement dated 19th January 2004 entered into between the Municipal Government of Suifenhe and Shanghai Shimao Jianshe Company Limited (“Shimao Jianshe”), a company beneficially and wholly owned by Mr. Hui Wing Mau, 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 722,824.5 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 Pogranichny-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 21st 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 19th 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 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 and Exhibition Centre (Phase I) and the five-star hotel are in progress and are scheduled to be completed in April 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 16th 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 Pogranichny 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 on 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.

Financial effect

The consideration for the Acquisition was HK\$496,220,000, satisfied by way of issuance of convertible note of HK\$250,000,000 and the promissory note of HK\$246,220,000.

The Acquisition was approved by the independent shareholders at the special general meeting held on 13th June 2005 and was completed on 24th June 2005.

- (a) Particulars of the assets and liabilities at fair value are as follows:

	<i>Note</i>	<i>HK\$'000</i>
Land use rights	8	570,494
Property, plant and equipment	8	97,709
Other non-current assets	8	68,986
Properties under development for sale		93,872
Other current assets		23,916
Other current liabilities		(133,514)
Amount received from Suifenhe Land Reserve Centre	16	(114,065)
Deferred tax liabilities	17	(141,623)
Fair value of net assets acquired		<u>465,775</u>
Satisfied by consideration at fair value		
Promissory note	14	214,190
Convertible note	15	
– Equity component		1,949
– Liability component		231,660
		<u>447,799</u>
Negative goodwill		<u>17,976</u>

- (b) 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 Wing Mau’s nephew, Shanghai Shimao Enterprises Development Co. Ltd. (“Shimao Enterprises”), 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 was approved by independent shareholders at a special general meeting held on 15th September 2005 of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Results Performance

During the period under review, in view of the robust potential of the international real estate market, the Group strategically focused on property development and investments in international markets. To better reflect its business development strategies, the Group changed its name to Shimao International Holdings Limited with the approval by the Shareholders.

For the first half year of 2005, the Group achieved remarkable breakthroughs. In addition to the official launch of "No. 21 Severn Road", a top-notch luxury residential project in Hong Kong, the Group successfully acquired Value Ahead Investments Limited ("Value Ahead"), the investment holding company of Suifenhe Shimao Development Project ("Suifenhe Shimao"), a property development project located along the national boundary between the Russian Federation and the PRC, dedicating itself to the development of the Suifenhe Sino-Russian Intertrading Zone development project.

For the six months ended 30th June 2005, the turnover of the Group (including share of turnover of an associated company) was HK\$37,023,000 (30th June 2004: HK\$296,635,000), representing a decrease of HK\$259,612,000 compared to the corresponding period last year. The decrease in turnover was mainly because most properties of Shimao Lakeside Garden have been sold prior to 2005, and most of the respective profit have been recognised. Therefore, contribution for the period was insignificant. Moreover, since the Suifenhe Shimao is still under development and at pre-sale stage, under the new accounting policies of the Group, even though the property has commenced pre-sale, revenue can only be recognised by the Group upon completion of the project. Therefore the revenue generated from the pre-sale of the Suifenhe Shimao during the period has not been recognised during the period. Profits attributable to shareholders of the Group during the period decreased to HK\$9,179,000 (2004: HK\$98,019,000) while earnings per share was HK1.11 cents (2004: HK11.84 cents).

Business Review

During the period under review, the Group strategically focused on the development of the international real estate and investment business as by actively exploring opportunities in Southeast Asia and overseas markets. Under the new business direction, the Group continues to aggressively enhance its competitiveness so as to capture every potential opportunity.

International Business

During the period under review, the Group successfully acquired 100% interest on Value Ahead. The primary asset of Value Ahead is its wholly-owned property project, Suifenhe Shimao. Suifenhe Shimao currently holds the First Phase Land located across the national boundary between Russia and the PRC, 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 within the Chinese border of the Intertrading Zone; and the contractual right to acquire the Second Phase Land, which is located in the Sino-Russian Intertrading Zone with site area of 807,175 sq.m, for the second phase of development.

The entire development project of Suifenhe Shimao is located at the commercial and tourist development zone across the national boundary of the PRC and the Russia Federation with a total site area of approximately 4.53 sq. km., of which two-thirds is within the Russian territory. Comprising various property portfolios, Suifenhe Shimao not only includes traditional property development components such as residential, hotel, office, retail and exhibition and promotion areas, but also integrates warehousing, logistics, product processing, cultural exchange, travelling, entertainment and leisure facilities.

The first phase of construction includes Shimao International Commercial and Exhibition Centre (Phase 1) and a five-star hotel.

The four-storey Shimao International Commercial and Exhibition Centre (Phase 1) has a site area and a total gross floor area of approximately 38,000 sq. m. and 83,000 sq. m. respectively, offering around 1,800 shops suitable for wholesale, retail, exhibition, food and beverage and entertainment businesses. Having completed the topping-out process, the Centre is currently under both internal and external renovations, and is expected to be available for occupation by April 2006 and to commence operations by around July.

The five-star hotel in the region has a total site area and a total gross floor area of 33,924 sq. m. and 49,000 sq. m. respectively. The 8-storey building comprised one basement floor and 7 floors above ground level. The hotel is designed by SRSS, a renowned US company, and a globally renowned hotel group will be appointed for managing the hotel. The hotel offers approximately 300 guest rooms and comprehensive ancillary facilities, including a magnificent cafe, Chinese and western restaurants, ballrooms, multifunctional conference rooms, swimming pools, entertainment centre and business centres, etc. Having completed the topping-out process, the facade of the hotel is currently enclosed to facilitate the sophisticated internal decorations. The hotel is expected to commence trial operations in July 2006.

The Shimao International Commercial and Exhibition Centre (Phase 1) commenced pre-sale and letting during the period and received favourable market response.

Hong Kong Business

The Group's wholly-owned superb residential project "No. 21 Severn Road" is located in the luxurious residential district of Severn Road, the Peak. The two four-storey detached houses offer a spectacular sea view and have a total floor area of approximately 6,000 sq. ft. each. Its premier design has been awarded the Annual Awards 2004 – Merit by the Hong Kong Institute of Architects. Each detached house has its own garden, swimming pool, sheltered parking and sightseeing elevator, covering an area of over 6,000 sq. ft., plus a spectacular 180-degree sea view of the Victoria Harbour. The entire architectural and interior design seamlessly combines life style, architecture and nature. Construction of the project was completed at the beginning of 2005.

In 2005, the Hong Kong economy displayed strong development, recording an increase in GPD for the first quarter of 6% compared to the corresponding period last year, coupled with the gradually stabilising political and economic environment, together boosted the property market once again.

Because of the tight land supply for luxury residential development, the demand for luxury residential property continues to be in excess of supply. Overlooking the recent properties launched in the market, luxury residential properties have attracted much attention from the market. According to the Land Registry, the number of transactions recorded for luxury residential properties with the value of over HK\$10 million in the first half of 2005 was approximately 2,362, representing a significant increase of 49% compared to the second half of last year and even surpassed the 1,583 transactions recorded in 1998, reaching a record high since 1997, among which, the traditional luxury residential properties on Hong Kong Island which have always been under supply achieved the most outstanding performance.

According to the List of Sites for Sale by Application for 2005-2006 provided by the Hong Kong Government, there are only 6 pieces of land on Hong Kong Island available for luxury residential development. These are expected to supply a total of less than 1,600 units, of which the number of units located in the traditional luxury residential area in southern Hong Kong Island would be even fewer. It is expected that the supply of luxury residential properties in the second half of 2005 will be inadequate. Given the high demand, prices of those properties will be further boosted. With the continuing growth of the Hong Kong economy in the second half of the year, the Group is confident that the sale of "No. 21 Severn Road" will generate significant revenue for the Group.

China Business

Most of the units of the Group's 50% owned Shimao Lakeside Garden were sold during the period, with profits attributable to the Group having been properly accounted for in the period and previous financial years respectively.

On the other hand, the occupation rate of Dong Fang Hong Shopping Centre in Lanzhou, Gansu Province and the 3 units of Epoch Centre Phase II in Beijing owned by the Group reached over 90% for the period under review. The performance was satisfactory and generated stable rental income for the Group.

Prospects

The Hong Kong property market is becoming more active with increasing transactions since the second quarter of 2005, especially under the current undersupply environment, and the demand for luxury residential properties being strong. "No. 21 Severn Road" has received positive market recognition and has successfully established a quality brand image for the Group, which will benefit the Group's long term development in Hong Kong.

For the second half of 2005, the Group will continue the pre-sale and letting of Shimao International Commercial and Exhibition Centre. As at 31st August 2005, pre-sale and letting of the property have received very positive response and sales of a total gross floor area of approximately 6,736 sq.m. with a supply of 244 units have been committed. On the letting front, lease for a total gross floor area of 8,000 sq.m. with a supply of 338 shops have been engaged, with an average term of 3 years, evidencing customers' confidence for the Suifenhe Shimao. Committed tenants include international enterprises such as Roca and iRevo. The Group expects that the project will generate considerable revenue for the Group upon its completion next year.

In light of the successful acquisition of the Suifenhe Shimao, the Group is actively seeking development opportunities on a global level so as to bring growth momentum to the Group's business. The Group will leverage on its well-established experience in the property market to strive to maximise returns for its shareholders.

FINANCIAL ANALYSIS

Interim Results

For the six months ended 30th June 2005, turnover of the Group (including share of turnover of an associated company) was HK\$37,023,000, representing a fall of 87.5% compared to the corresponding period in 2004 (30th June 2004: HK\$296,635,000). The decrease in turnover was mainly because most of the units of Shimao Lakeside Garden have been sold prior to 2005, and most of the respective profits have been recognised. Therefore, contribution for the period was insignificant. Moreover, since the Suifenhe Shimao is still under development and at pre-sale stage. Under the new accounting policy of the Group, the Group will only recognise the respective revenue upon completion of the projects, and accordingly, the pre-sale revenue from the Suifenhe Shimao for the period has not been recognised as turnover for the current period. Profits attributable to the shareholders of the Company was HK\$9,179,000, representing a decrease of 90.6% compared to the corresponding period in 2004 (corresponding period in 2004: HK\$98,019,000).

Liquidity, Financial Resources and Bank Loans

For the period under review, the Group's liquidity maintained at healthy level and its financial resources were also well distributed. As at 30th June 2005, total assets of the Group reached HK\$1,743,111,000, of which current assets amounted to HK\$284,962,000, total liabilities was HK\$1,111,570,000, non-current liabilities was HK\$906,557,000 and equity attributable to the shareholders of the Company amounted to HK\$631,541,000.

Moreover, as at 30th June 2005, the Group had an aggregate cash and bank balances of approximately HK\$36,420,000 (31st December 2004: HK\$18,359,000) and bank borrowings of approximately HK\$155,083,000 (31st December 2004: HK\$196,420,000). Average interest rate of the bank loans were ranged between 1.6% to 4.9%.

Pledge of Assets

As at 30th June 2005, the Group has pledged its leasehold land and buildings with a total carrying amount of approximately HK\$519,130,000 (31st December 2004: HK\$522,407,000) in favour of banks to secure the facilities granted to the Group. The facilities utilised at 30th June 2005 amounted to HK\$155,083,000 (31st December 2004: HK\$196,420,000).

Foreign Exchange Risk

Most of the Group's assets, liabilities and business transactions are denominated in Hong Kong dollars and Renminbi with a small proportion in US dollars. The exchange rates of other major currencies remained relatively stable during the period. The directors of the Group do not expect substantial exchange fluctuation risks to the Group, while it is not assured that any exchange risk will not affect the Group's operating business in the future. As at 30th June 2005, the Group have not issued any financial instrument nor entered into any contracts for hedging purpose.

Financial Strategies

The Group will continue to control financial risks cautiously and proactively adopt internationally-recognised corporate management standards to ensure maximum protection for shareholders.

Employees and Remuneration Policy

As at 30th June 2005, the Group employed a total of 139 employees. The fringe benefits and remuneration of the staff of the Group are determined with reference to individual experience and academic attainments as well as general market conditions. Year-end bonus and incentives are provided according to the Group's results and individual performance. The Group also provides adequate training and continuous professional development opportunities to its staff.

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Group and to safeguard the interests of the shareholders of the Company.

The Board is responsible for the overall management of the Group's business. Mr. Hui Wing Mau as Chairman heads the Board whilst Mr. Chung Shui Ming, Timpson as Chief Executive Officer is responsible for the operations of the Group. Their roles are clearly segregated. The Board currently comprises nine directors, one third of which is independent non-executive directors.

The Board has established an Executive Committee, an Audit Committee and a Remuneration Committee with written terms of reference (available to shareholders upon request). The Board considers the recommendations on matters relating to the nomination and appointment of directors to be the Board's collective efforts and thus does not intend to set up a Nomination Committee.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as the code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors, all directors confirmed they had complied with the required standard set out in the Model Code throughout the accounting period for the six months ended 30th June 2005.

Executive Committee

The Company has established an Executive Committee which serves as an executive arm of the Board in the formulation of policies for consideration of the Board, and in carrying out and implementing the policies laid down by the Board. The Committee is delegated with all the powers and authorities of the Board and shall keep regular minutes of its meetings, resolutions and other actions, and report the same to the Board. The Committee currently comprises Mr. Hui Wing Mau, Mr. Chung Shui Ming, Timpson and Ms. Hui Mei Mei, Carol.

Audit Committee

The Company has established an Audit Committee with written terms of reference which describe the authority and duties of the Audit Committee. The terms of reference were prepared and adopted with reference to the guidelines published by the HKICPA and the relevant provisions in the latest edition of the Listing Rules.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee currently comprises three independent non-executive directors, namely Professor Lee Chack Fan, Mr. Liu Hing Hung and Dr. Zhu Wenhui.

The Audit Committee has reviewed the unaudited interim financial information and discussed the financial related matters with management. In addition, the Group's external auditors have carried out a review of the interim financial information in accordance with Statement of Auditing Standards 700 issued by the HKICPA.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference. The function of the Committee is to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration of the executive directors and senior management. The written terms of reference which describe the authority and duties of the Remuneration Committee were prepared with reference to the relevant provisions in the latest edition of the Listing Rules

The Committee comprises two independent non-executive directors, namely Professor Lee Chack Fan and Mr. Liu Hing Hung and one executive director namely Ms. Hui Mei Mei, Carol.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the accounting period for the six months ended 30th June 2005, except for the following deviation:

Code Provision A.4.1

This code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Each of Professor Lee Chack Fan, Mr. Liu Hing Hung and Dr. Zhu Wenhui, being all the independent non-executive directors of the Company, entered into a service contract with the Company on 23rd May 2005 confirming the appointment till 31st December 2006 subject to re-election following by rotation in accordance with the Bye-Laws of the Company.

Code Provision A.4.2

The last sentence of this code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

A special resolution was passed on 23rd May 2005 to amend the Bye-Laws of the Company such that every director shall retire from office by rotation no later than the third annual general meeting of the Company after he was last elected or re-elected and directors holding offices as chairman and managing director are also subject to retirement by rotation.

Code Provision A.5.4

This code stipulates that, inter alia, the Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company.

A Code for Securities Transaction by Relevant Employees which is on no less exacting terms than the Model Code has been adopted by the Board on 19th August 2005.

Code Provision B.1.1

This code stipulates that listed issuers should establish a remuneration committee.

The Remuneration Committee of the Company was established on 24th March 2005 with written terms of reference.

Code Provision D.2

This code stipulates that board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

The written terms of reference of the Executive Committee formed on 5th February 2004 was adopted by the Board on 25th August 2005.

OTHER INFORMATION

IMPORTANT EVENTS OCCURRED AFTER 31ST DECEMBER 2004

1. The Company announced on 23rd February 2005 the Group's plan to pursue a business strategy of property development and investment in international markets (including Hong Kong) outside mainland PRC and the entering into of a non-competition undertaking (the "Undertaking") dated 19th February 2005 with Mr. Hui Wing Mau, the Chairman and a non-executive director of the Company, and other parties including Shimao Property Holdings Limited, a company wholly-owned by Mr. Hui, whereby the parties thereto agree to delineate their respective businesses on the terms and conditions set out therein. The reasons for and the benefits of the delineation and other details of the Undertaking were contained in the circular of the Company dated 26th February 2005 (the "Circular") and a Special General Meeting has also been convened to be held on 14th March 2005 to consider and if appropriate to approve the Undertaking. As the Listing Committee of the Stock Exchange later took the view that the principles of spin-off application under Practice Note 15 of the Listing Rules should apply by the Stock Exchange in considering the Undertaking (the "Decision"), the said Special General Meeting was adjourned and the Company also submitted a written request for a review of the Decision to the Listing (Review) Committee of the Stock Exchange on 7th April 2005. Details of the development have been set out in the Company's 2004 Annual Report.

The Company announced on 10th August 2005 that following a review hearing on the Decision, the Listing (Review) Committee has decided to overturn the Decision and ruled that Practice Note 15 of the Listing Rules was not applicable to the Undertaking. The Company then reissued the Circular to shareholders of the Company on 31st August 2005 with revised and updated information to address certain points raised by the Listing (Review) Committee and reconvened the adjourned Special General Meeting. The adjourned Special General Meeting was held on 15th September 2005 in which the ordinary resolution relating to the approval of the Undertaking and transactions contemplated thereunder was duly passed by independent shareholders by way of poll. Results of the adjourned Special General Meeting was announced on 15th September 2005.

2. The Company also announced on 23rd February 2005 (the "Suifenhe Announcement") the acquisition by the Company of the entire issued share capital of, and the amount due from, Value Ahead Investments Limited from Mr. Hui and his associate at an aggregate consideration of HK\$496,220,000 (the "Acquisition"). The principal asset of Value Ahead Investments Limited is the effective interest in the Suifenhe Shimao Development Project (as defined in the Suifenhe Announcement). Details of the Acquisition and the Suifenhe Shimao Development Project have been set out in the Company's 2004 Annual Report and the circular issued to shareholders of the Company on 25th May 2005. In a Special General Meeting held on 13th June 2005, the Acquisition and transactions contemplated thereunder were duly approved by independent shareholders by way of poll. Results of the Special General Meeting were announced on 13th June 2005 and the Acquisition completed on 24th June 2005.
3. The shareholders of the Company approved the change of name of the Company to Shimao International Holdings Limited and the adoption of 世茂國際控股有限公司 as the Chinese name of the Company by way of a special resolution on 23rd May 2005. Such change of name was approved by the Registrar of Companies in Bermuda and became effective on 26th May 2005.

DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in the share capital of the Company and the associated corporations

At 30th June 2005, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

Interests in the Company

Name of director	Number of ordinary shares			
	Personal Interests	Corporate interests	Other interests	Total
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 assuming full conversion of the Convertible Note. Since the entire issued share capital of Dynamic Keen Developments Limited is wholly owned by Mr. Hui Wing Mau, Mr. Hui Wing Mau 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 as trustee of The W M Hui Family Trust, a discretionary trust set up by Mr. Hui Wing Mau 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 Wing Mau and accordingly, Mr. Hui Wing Mau, 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, none of the directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Substantial Shareholders

At 30th June 2005, the following persons (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were:

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	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 assuming full conversion of the Convertible Note. Since the entire issued share capital of Dynamic Keen Developments Limited is wholly owned by Mr. Hui Wing Mau, Mr. Hui Wing Mau 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 as trustee of The W M Hui Family Trust, a discretionary trust set up by Mr. Hui Wing Mau, a director of the Company, for the benefit of his wife and children.

Save as disclosed above, no other person (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share Options

As the share option scheme adopted by the Company on 24th June 1998 (the "Old Scheme") did not comply with the new provisions of Chapter 17 of the Listing Rules following amendments to the Listing Rules made effective on 1st September 2001, the Company proposed an ordinary resolution at the Special General Meeting held on 13th June 2005 to terminate the Old Scheme and adopt a new share option scheme for compliance with the amended rules of Chapter 17 of the Listing Rules (the "New Scheme"). The ordinary resolution proposed was duly passed by the shareholders of the Company at the said Special General Meeting and the results of the Special General Meeting were published in an announcement dated 13th June 2005.

The New Scheme serves the purpose of enabling the Company to grant options to selected employees of the Group, including the executive directors of the Company, 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 such employees or directors.

During the period, there were no outstanding share options under the Old Scheme and no new share options were granted or exercised under the New Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE LISTING RULES

The Company announced on 22nd June 2005 that a wholly-owned subsidiary of the Company entered into a Facility Letter with a bank on 22nd June 2005 (the "Facility Letter") for a term loan facility of up to HK\$349,200,000 (the "Facilities"). The Facilities will expire as follows:

Facilities Amount	Expiry Date
HK\$129,200,000	22nd March 2017
HK\$100,000,000	One year from date of drawdown
HK\$120,000,000	Two years from date of drawdown

The Facility Letter includes, inter alia, a condition to the effect that Perfect Zone International Limited, the controlling shareholder of the Company, will at all times own not less than 51% of all the issued share capital of the Company. A breach of the above condition will constitute an event of default under the Facility Letter. If such an event of default occurs, the Facilities will become immediately repayable. The Facilities have been used to finance the general corporate funding requirements of the Company and its subsidiaries.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to all the staff. Their efforts, endeavor and commitment are the key elements for the Group's success. In addition, I would like to thank our shareholders for their continued support. We will strive for a prosperous future and maximize the returns to our shareholders.

By Order of the Board
Shimao International Holdings Limited
Hui Wing Mau
Chairman

Hong Kong, 15th September 2005