

Chairman's Statement



The Group will actively seek development opportunities on a global level and leverage on its well-established experience in the property market to strive to maximise return for its shareholders.

Mr. Hui Wing Mau, Chairman

On behalf of the Board of Directors (the “Board”) of Shimao International Holdings Limited (the “Company”), I would like to present the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2005.

Results Performance

During the year under review, in view of the robust potential of the international real estate markets, the Group strategically focused on property development and investment 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 during the year.

In 2005, the Group was in active pursuit of its new business. 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. It was dedicated to the development of the Suifenhe Sino-Russian Intertrading Zone development project.

For the year ended 31st December 2005, turnover of the Group (including share of turnover of an associated company) was HK\$48,502,000 (2004: HK\$604,706,000), representing a decrease of HK\$556,204,000 as compared with last year. Profit attributable to shareholders of the Group during the year decreased to HK\$109,009,000 (2004: HK\$187,803,000), which includes gain on revaluation of investment properties (net of deferred tax) of HK\$150,510,000. Basic earnings per share was HK13.2 cents (2004: HK22.7 cents).

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Dividend

The Directors do not recommend the payment of final dividend for the year ended 31st December 2005 (2004: HK5 cents).

Business Review

During the year under review, the Group strategically focused on the development of international real estate and investment business by actively exploring opportunities in overseas markets. Under the new business direction, the Group strove to enhance its competitiveness so as to capture every potential opportunity. As the Group was in the process of transformation and the new business was under incubation during the year, the Group recorded diminished results for the year. However, the Group has full confidence in its new business which is expected to bring remarkable return for the shareholders.

International Business

During the year under review, the Group successfully acquired 100% interest in Value Ahead. The primary asset of Value Ahead is its wholly-owned property project, Suifenhe Shimao. Suifenhe Shimao currently holds the First Phase Land, comprising two parcels of land located in the Municipality of Suifenhe, Heilongjiang, 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 as part of the first phase development project within the Chinese border of the Intertrading Zone. Suifenhe Shimao also holds the contractual right to acquire the Second Phase Land, which is located in the Sino-Russian Intertrading Zone with a site area of 807,175 sq. m. as part of the second phase development project.

For the second half of 2005, the Group carried out the pre-sale and letting of Shimao International Commercial and Exhibition Centre. As at 31st December 2005, pre-sale and letting of the property have received very positive response and sales of a total gross floor area of approximately 6,639 sq. m. with a supply of 244 units have been committed. On the letting front, leases for a total gross floor area of 13,837 sq. m. with a supply of 430 shops have been engaged, with an average term of 2 years, evidencing customers' confidence in the Suifenhe Shimao.

The entire development project of Suifenhe Shimao is located at the commercial and tourist development zone across the national boundary of the PRC and Russia 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.

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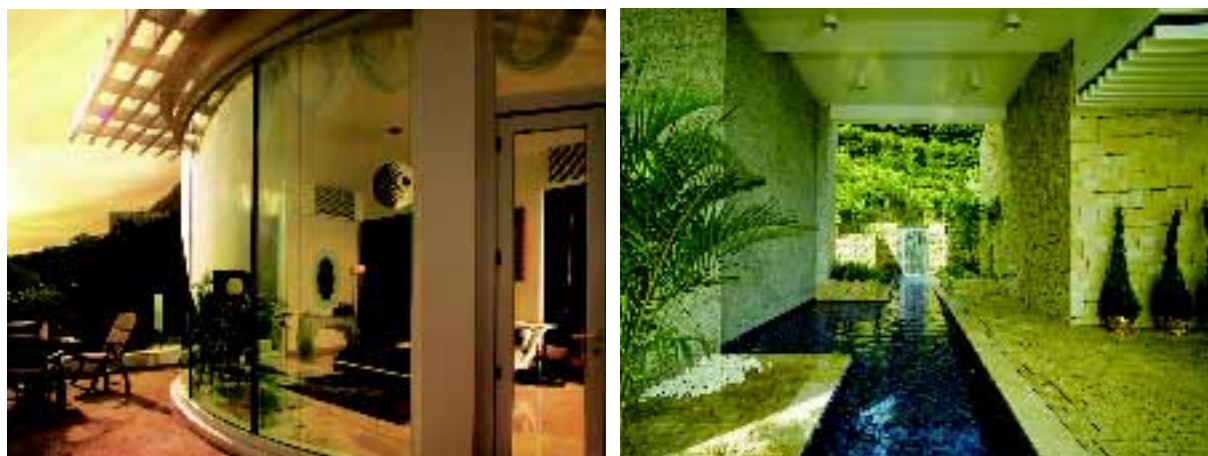
Suifenhé Shimao
Development
Project (artist's
impression)



Teemed with natural resources, Russia is the largest oil producer second only to the Middle East. The rising oil prices injected new momentum for the economic growth of Russia as a key oil exporter, with revenue of both the local government and corporations on the rise. Meanwhile, the Russian government actively implemented reforms and promoted consumptions through measures, such as tax relief, so as to build up favourable investment sentiments. Gross Domestic Products (GDP) of Russia in 2005 amounted to US\$765.8 billion, representing a year-on-year increase of 6.4%, which was greater than the economic growth of developed countries and regions such as the US, the Euro Region and Japan. Compared with 1999, the Russian GDP recorded an effective growth of 50% in 2005. The Group expects that Russia will maintain its economic growth, providing a favourable environment for the development of its real estate business in the country.

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Hong Kong Business



The luxurious residential project “No. 21 Severn Road” wholly-owned by the Group is located in the upmarket residential district of Severn Road, the Peak. The two four-storey detached houses offer a spectacular sea view and a total floor area of approximately 6,000 sq. ft. each. Its premier design has won 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.

Due to limited land supply for luxury residential development, the demand for luxury residential property continues to be in excess of supply. In particular, traditional upmarket residential regions on the Hong Kong Island, which have long been subject to undersupply, achieved the most spectacular performance. The Group will actively identify purchaser for the “No. 21 Severn Road” project as opportunity arises, so as to maximize the return to shareholders.

Subsequent Event

To further develop its overseas business, the Group entered into various agreements on 15th April 2006 to invest in a large scale property investment and development project in St. Petersburg, Russia for a consideration of approximately HK\$232 million (the “Baltic Pearl Project”). The project involves the development of a mixture of residential, hotel, commercial and retail space, office, exhibition and convention facilities on a land of 1,640,717 sq.m. Upon completion of the agreements, the Group will have a 33.34% interest in the Baltic Pearl Project.

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Prospects

The Hong Kong property market continued to blossom since 2005, with relatively tight supply in the luxury residential market, resulting in keen demand for luxury residential properties. "No. 21 Severn Road" received positive market recognition and has successfully established a superior brand image for the Group, which will benefit the Group's long-term development in Hong Kong.

As for international business, the Group will continue the pre-sale and letting of Shimao International Commercial and Exhibition Centre. The commercial and trade centre and hotel project under Suifenhe Shimao will be in operation in August 2006. With a total site area of 33,924 sq. m., the 8-storey hotel, which comprises of one basement level and seven floors, will offer a total gross floor area of 42,767 sq. m. divided into an aggregate of 301 guest rooms. The hotel is designed by the renowned SRSS from the US and will be managed by the world-famous InterContinental Hotels Group. The hotel will offer comprehensive ancillary facilities, including well-equipped business, conference, dining and entertainment facilities. The Group expects to recognise considerable revenue from Suifenhe Shimao upon its completion in 2006.

The Group will actively seek development opportunities on a global level so as to bring growth momentum into the Group's business. The Group will also leverage on its well-established experience in the property market to strive to maximise return for its shareholders.

Appreciation

On behalf of the Board, I would like to express my gratitude to our shareholders and investors, business partners and clients for their trust and support, and together, I wish we can join hands to create a brighter growth prospect.

On behalf of the Board

Hui Wing Mau

Chairman

Hong Kong, 24th April 2006