THIS CIRCULAR 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 licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shimao International Holdings Limited, you should at once hand this circular to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

SHIMAO INTERNATIONAL HOLDINGS LIMITED
世茂國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

MAJOR TRANSACTIONS

Financial adviser to the Company

博大資本國際有限公司
Partners Capital International Limited

13 June 2006

CONTENTS

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

"Agreements"	the Subscription Agreement, the Premium Agreement, the Joint Venture Agreement, the Supplemental Promoter Agreement, the Supplemental Articles of Association, the Deed of Undertaking and the Deed
"Baltic Pearl Project"	property investment and development project in St. Petersburg, Russia which is planned to include a mixture of residential, commercial and retail space, hotels, convention centre and other facilities
"Beneficiaries"	the Existing OU Shareholders, Shanghai Jiangong and OU
"Board"	the board of Directors
"Burla"	Burla Group Limited, a company incorporated in the BVI with limited liability and currently owned by the Nominee
"Burla Share(s)"	share(s) of US$1.00 each in the share capital of Burla
"Burla Subscription"	the acquisition of 1 Burla Share from the Nominee and the subscription of 7,649,999 Burla Shares for an aggregate cash consideration of US$7,650,000 under the Joint Venture Agreement
"BVI"	the British Virgin Islands
"Company"	Shimao International Holdings Limited, a company incorporated in Bermuda with limited liability, the securities of which are currently listed on and dealt in the Stock Exchange with the stock code of 649
"Completion"	completion of the Subscription Agreement
"Controlling Shareholder"	Perfect Zone International Limited, a company incorporated in the 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 of the Company interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date

"Deed"	the deed dated 15 April 2006 entered into between the Company and Shanghai Shiye in relation to the undertakings by Shanghai Shiye
"Deed of Undertaking"	the deed of undertaking dated 15 April 2006 entered into between the Company and the Beneficiaries in relation to the undertakings by the Company
"Director(s)"	the director(s), including the independent non-executive directors, of the Company
"Enlarged Group"	the Group as enlarged by the Investments including the subscription of the issued share capital of the Project Company by Burla
"Existing OU Shareholders"	Party A, Party B, Party C, Party D, Party E, Party F and Party G
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	independent third party(ies) is(are) not a connected person(s) (as defined in the Listing Rules) of the Company and also not connected with the Company and the connected person(s) (as defined in the Listing Rules) of the Company
"Investments"	the OU Subscription, the entering into of the Premium Agreement and the Burla Subscription
"Joint Venture Agreement"	the joint venture agreement dated 15 April 2006 entered into between the Company, Top Ahead, OU, Shanghai Shiye and Burla in relation to the formation of Burla
"Land"	one land parcel at Petergofskoe shosse, Krasnoselskyi raion, St. Petersburg, Russia with a total site area of 1,640,717 sq.m.
"Latest Practicable Date"	9 June 2006, 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 from the Controlling Shareholder"	a shareholder's loan in the principal amount of HK$232,747,000 to be advanced by the Controlling Shareholder
"Mr. Hui"	Mr. Hui Wing Mau, the Chairman of the Company and non-executive Director
"New OU Shareholders"	Top Ahead and Shanghai Jiangong
"Nominee"	OIL Officers Limited as a nominee holding 1 Burla Share
"OU"	上海海外聯合投資股份有限公司 (Shanghai Overseas United Investment Company Limited), a domestic joint stock limited company in the PRC and currently owned by the Existing OU Shareholders
"OU Share(s)"	share(s) of RMB1.00 each in the share capital of OU
"OU Subscription"	the subscription of 150,000,000 OU Shares for a cash consideration of RMB150,000,000 under the Subscription Agreement
"Party A"	上海上實（集團）有限公司 (SIIC Shanghai (Holding) Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of Shanghai Industrial Investment (Holdings) Co. Ltd. which is an investment holding company wholly owned by the Shanghai municipal government
"Party B"	上海實業發展股份有限公司 (Shanghai Industrial Development Co., Ltd.), a company incorporated in the PRC with limited liability and the shares of which are currently listed on and dealt in the Stock Exchange of Shanghai with stock code of 600748
"Party C"	上海海外公司 (Shanghai Overseas Enterprises Corporation), a company incorporated in the PRC and a subsidiary of Shanghai Industrial Investment (Holdings) Co. Ltd. which is an investment holding company wholly owned by the Shanghai municipal government
"Party D"	百聯集團有限公司 (Bailian Group Co., Ltd.), a state owned company incorporated in the PRC with limited liability which is a distribution conglomerates with department stores, supermarkets and convenience stores etc.

"Party E"	錦江國際（集團）有限公司 (JinJiang International Holdings Co., Ltd.), a state owned company incorporated in the PRC with limited liability which is a travel and hotel conglomerates in the PRC
"Party F"	上海綠地（集團）有限公司 (Shanghai Greenland (Group) Co., Ltd.), a company incorporated in the PRC with limited liability which is principally engaged in property investment and development in the PRC
"Party G"	上海工業歐亞發展中心 (Shanghai Euro-Asian Industrial Development Center), a company incorporated in the PRC and owned by Shanghai Economic Committee which is principally engaged in the trading business and investment between the PRC and Russia
"PRC"	the People's Republic of China which excludes Hong Kong, Taiwan and Macau Special Administrative Region of the PRC
"Premium Agreement"	the premium agreement dated 15 April 2006 entered into between Top Ahead, the OU Existing Shareholders and Shanghai Jiangong pursuant to which Top Ahead and Shanghai Jiangong agreed to pay the Existing OU Shareholders RMB30,000,000 and RMB10,000,000 respectively, being 20% of the respective subscription amounts under the Subscription Agreement, as premium
"Project Company"	ZAO Baltyiskaya Zhemchuzhina (波羅的海明珠封閉式股份有限公司 ZAO Baltic Pearl) was established in Russia as a wholly foreign owned enterprise on 22 March 2005
"Russia"	Russia Federation
"Russian Party"	Komitet po ypravleniy gorodskim imyshestvom Sankt-Peterburga (St. Petersburg Committee for Managing City Property) (whose English name is for identification purpose only)
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"Shanghai Jiangong"	上海建工（集團）總公司 (Shanghai Construction Group), a state owned company incorporated in the PRC which is principally engaged in property construction business in the PRC
"Shanghai Shiye"	上海實業（集團）有限公司 (Shanghai Industrial Investment (Holdings) Co. Ltd.), a company incorporated in Hong Kong with limited liability and wholly owned by Shanghai municipal government and is principally engaged in international trading, pharmaceutical, real estate, construction of infrastructure facilities and information technology
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription contemplated under the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 15 April 2006 entered into between the Company, Top Ahead, the Existing OU Shareholders and Shanghai Jiangong, pursuant to which Top Ahead and Shanghai Jiangong will subscribe for and OU will allot and issue 150,000,000 OU Shares and 50,000,000 OU Shares respectively at an issue price of RMB1.00 per OU Share to increase the registered capital of OU from RMB750,000,000 to RMB950,000,000
"Suifenhe Shimao Development Project"	the property development project being undertaken by 綏芬河世茂開發建設有限公司 (Suifenhe Shimao Development & Construction Company Limited), details of which are set out in the circular of the Company dated 25 May 2005
"Supplemental Articles of Association"	the supplemental articles of association entered into between the Existing OU Shareholders and the New OU Shareholders dated 15 April 2006
"Supplemental Promoter Agreement"	the supplemental promoter agreement entered into between the Existing OU Shareholders and the New OU Shareholders dated 15 April 2006

"Top Ahead"	Top Ahead International Limited, a company incorporated in the BVI with limited liability and wholly owned by the Company
"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 RMB1.04 = HK$1.00
"RUB"	Roubles, the lawful currency of Russia and for the purpose of this circular, RUB is translated into United States Dollar at fixed rate of RUB27.68 = US$1.00
"US$"	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.

SHIMAO INTERNATIONAL HOLDINGS LIMITED

世茂國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

Directors:
Hui Wing Mau *(Chairman and Non-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
43/F, Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

13 June 2006

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTIONS

INTRODUCTION

On 24 April 2006, the Board announces that on 15 April 2006:

(i) the Company, Top Ahead (a wholly owned subsidiary of the Company), the Existing OU Shareholders and Shanghai Jiangong entered into the Subscription Agreement pursuant to which Top Ahead and Shanghai Jiangong will subscribe for and OU will allot and issue 150,000,000 OU Shares (representing approximately 15.7895% of the issued share capital of OU as enlarged by the Subscription) and 50,000,000 OU Shares (representing approximately 5.2632% of the issued share capital of OU as enlarged by the Subscription) respectively at an issue price of RMB1.00 per OU Share to increase the registered capital of OU from RMB750,000,000 to RMB950,000,000;

(ii) Top Ahead, Shanghai Jiangong and the Existing OU Shareholders entered into the Premium Agreement pursuant to which Top Ahead and Shanghai Jiangong agreed to pay to the Existing OU Shareholders RMB30,000,000 and RMB10,000,000 respectively, being 20% of the respective subscription amounts under the Subscription Agreement, as premium;

(iii) the Company, Top Ahead, OU, Shanghai Shiye and Burla entered into the Joint Venture Agreement pursuant to which Top Ahead will acquire 1 Burla Share from the Nominee and a total of 14,999,999 Burla Shares will be allotted and issued to Top Ahead, Shanghai Shiye and OU, as to 7,649,999 Burla Shares, 3,750,000 Burla Shares and 3,600,000 Burla Shares respectively, for cash at par, for the purpose of investing in the Project Company. Accordingly, Top Ahead will hold 7,650,000 Burla Shares representing 51% of the issued share capital of Burla upon completion of the Joint Venture Agreement for a cash consideration of US$7,650,000;

(iv) the Company entered into the Deed of Undertaking in favour of the Beneficiaries pursuant to which the Company undertakes, inter alia, that it will guarantee to the Beneficiaries the due and punctual performance by Top Ahead of its obligations under the Subscription Agreement, the Supplemental Promoter Agreement and the Supplemental Articles of Association; and

(v) Shanghai Shiye entered into the Deed in favour of the Company pursuant to which Shanghai Shiye undertakes, inter alia, that it will buy back approximately 15.7895% of the issued share capital of OU and 51% of the issued share capital of Burla from Top Ahead if Burla is unable to acquire 45% shareholding of the Project Company at a consideration of approximately US$13,500,000.

The Agreements constitute major transactions of the Company under the Listing Rules and must be made conditional on approval by the Shareholders. Pursuant to Rule 14.44 of the Listing Rules, the approval by the Shareholders may be obtained by means of the written approval of the transaction by a Shareholder who holds more than 50% of the voting rights of the Company. Given that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Agreements; and (ii) a written approval of the Agreements and the transactions contemplated thereunder has been given by the Controlling Shareholder who holds approximately 74.74% of the existing issued share capital of the Company, a special general meeting of the Shareholders will therefore not be convened for the purpose of approving the Agreements.

The purpose of this circular is to give you further information of the Investments, the accountants' report of the OU Group, the financial information of the Enlarged Group including the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group and the property valuation report of the land lease rights in the Land.

THE SUBSCRIPTION AGREEMENT DATED 15 APRIL 2006

Parties

A. The Existing OU Shareholders:

Party A : 上海上實(集團)有限公司 (SIIC Shanghai (Holding) Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of Shanghai Industrial Investment (Holdings) Co. Ltd. which is an investment holding company wholly owned by the Shanghai municipal government;

Party B : 上海實業發展股份有限公司 (Shanghai Industrial Development Co., Ltd.), a company incorporated in the PRC with limited liability and the shares of which are currently listed on and dealt in the Stock Exchange of Shanghai with stock code of 600748;

Party C : 上海海外公司 (Shanghai Overseas Enterprises Corporation), a company incorporated in the PRC and a subsidiary of Shanghai Industrial Investment (Holdings) Co. Ltd. which is an investment holding company wholly owned by the Shanghai municipal government;

Party D : 百聯集團有限公司 (Bailian Group Co., Ltd.), a state owned company incorporated in the PRC with limited liability which is a distribution conglomerates with department stores, supermarkets and convenience stores etc.;

Party E : 錦江國際(集團)有限公司 (JinJiang International Holdings Co., Ltd.), a state owned company incorporated in the PRC with limited liability which is a travel and hotel conglomerates in the PRC;

Party F : 上海綠地(集團)有限公司 (Shanghai Greenland (Group) Co., Ltd.), a company incorporated in the PRC with limited liability which is principally engaged in property investment and development in the PRC; and

Party G : 上海工業歐亞發展中心 (Shanghai Euro-Asian Industrial Development Center), a company incorporated in the PRC and owned by Shanghai Economic Committee which is principally engaged in the trading business and investment between the PRC and Russia.

B. *The New OU Shareholders:*

Top Ahead	:	Top Ahead International Limited, a company incorporated in the BVI with limited liability and directly wholly owned by the Company; and
Shanghai Jiangong	:	上海建工（集團）總公司 (Shanghai Construction Group), a state owned company incorporated in the PRC which is principally engaged in property construction business in the PRC.

C. *The sole shareholder of Top Ahead*

the Company	:	Shimao International Holdings Limited, a company incorporated in Bermuda with limited liability and the securities of which are currently listed on and dealt in the Stock Exchange with the stock code of 649

To the best knowledge of the Directors, each of the Existing OU Shareholders, Shanghai Jiangong and their respective ultimate beneficial owners is an Independent Third Party.

Subscription of OU Shares by Top Ahead

As at the Latest Practicable Date, the registered capital of OU is RMB750,000,000 divided into 750,000,000 OU Shares of RMB1.00 each, which are owned as to 150,000,000 OU Shares, 150,000,000 OU Shares, 100,000,000 OU Shares, 100,000,000 OU Shares, 100,000,000 OU Shares, 100,000,000 OU Shares and 50,000,000 OU Shares by Party A, Party B, Party C, Party D, Party E, Party F and Party G respectively.

Pursuant to the Subscription Agreement, additional 200,000,000 OU Shares of RMB1.00 each will be allotted and issued to Top Ahead and Shanghai Jiangong, as to 150,000,000 OU Shares and 50,000,000 OU Shares respectively, at an issue price of RMB1.00 per OU Share. Accordingly, OU will be owned as to approximately 15.7895%, 15.7895%, 10.5263%, 10.5263%, 10.5263%, 10.5263%, 5.2632%, 15.7895% and 5.2632% by Party A, Party B, Party C, Party D, Party E, Party F, Party G, Top Ahead and Shanghai Jiangong respectively upon completion of the Subscription.

The subscription money of RMB150,000,000 (approximately HK$144,231,000) is to be satisfied in cash in an equivalent amount of HK$ (based on the median exchange rate between RMB and HK$ as quoted by the People's Bank of China on the date of payment) by Top Ahead within 90 days after all the conditions precedent are fulfilled or waived (as the case may be) and the Subscription Agreement has been approved by the relevant governmental authorities.

The primary current assets of OU are (i) the cash balance of approximately HK$594,015,000 as at 31 December 2005 and (ii) its 100% interest in the Project Company, a wholly foreign owned enterprise established in Russia for the purpose of engaging in property investment and development in St. Petersburg, Russia. It is the intention of the Existing OU Shareholders and the New OU Shareholders to transform OU from a domestic joint stock limited company into a foreign invested joint stock limited company and to invest in the Baltic Pearl Project through the Subscription.

Apart from the investment in the Project Company, it is the intention of the Existing OU Shareholders and the New OU Shareholders to use the uninvested fund of OU to invest in the trading and property development and investment projects in Russia if opportunities arise.

Conditions and Effectiveness of the Subscription Agreement

Completion is conditional upon the following major conditions precedent having been satisfied:

(i) the warranties of each of the Existing OU Shareholders and the New OU Shareholders under the Subscription Agreement being true, complete, correct and not misleading in any material respect;

(ii) the Existing OU shareholders and the New OU Shareholders having obtained all necessary consents and approvals from the relevant governmental and regulatory authorities (including those consents and approvals given by the Stock Exchange, Shanghai Development and Reform Commission, Shanghai State-owned Assets Supervision and Administration Commission; and Shanghai Foreign Investment Commission) or a third party for the performance of the Subscription Agreement and the transactions contemplated therein;

(iii) the Subscription Agreement and the transactions contemplated therein having been approved by the Shareholders at a special general meeting of the Company pursuant to the Listing Rules, or if permitted by the Listing Rules, a written approval of the Subscription Agreement and the transactions contemplated therein having been given by the majority shareholder(s) in lieu of a special general meeting of the Company;

(iv) each of the New OU Shareholders having satisfactorily completed the due diligence investigation on the assets, business, operation, accounting, taxation, legal and financial aspects of OU;

(v) each of the New OU Shareholders having obtained a satisfactory PRC legal opinion regarding the business, operation, assets, liabilities and due establishment of OU, the legality of the OU Subscription and the obligations of the Existing OU Shareholders under the Subscription Agreement; and

(vi) OU having obtained the written approvals from all relevant regulatory authorities (including Shanghai Development and Reform Commission, Shanghai State-owned Assets Supervision and Administration Commission; and Shanghai Foreign Investment Commission) in relation to the New OU Shareholders' investments in OU and the transformation of OU from a domestic joint stock limited company into a foreign invested joint stock limited company.

If any of the conditions precedent of the Subscription Agreement is not fulfilled or waived by the New OU Shareholders and/or the Existing OU Shareholders (as the case may be) within 4 months after the date of the Subscription Agreement or such other date as shall be agreed in writing between the parties to the Subscription Agreement, without prejudice to the Subscription Agreement as well as to the applicable laws, the Existing OU Shareholders or the New OU Shareholders (as the case may be) shall be entitled to decide in their discretion: (a) whether to postpone the deadline of the submission of the Subscription Agreement for governmental authorities' approvals; (b) whether to proceed to completion so far as practicable; or (c) to terminate the Subscription Agreement. In the event that the Subscription Agreement is terminated, none of the parties shall have any claim against the other for compensation in any aspects. As at the Latest Practicable Date, the Company has no intention to waive any of the above conditions precedent. As OU is a PRC company, no approval from any Russian authorities is required for the OU Subscription.

The Supplemental Promoter Agreement and the Supplemental Articles of Association

On 15 April 2006, the Existing OU Shareholders and the New OU Shareholders also entered into the Supplemental Promoter Agreement and the Supplemental Articles of Association to increase the registered capital and to regulate the responsibilities of the shareholders of OU towards the management of the business and corporate affairs of OU. Upon Completion, the promoters of OU will include the Existing OU Shareholders and the New OU Shareholders and the registered capital of OU will be increased to RMB950 million (approximately HK$913.5 million). Any shareholder(s) individually or collectively holding 10% shareholding of OU is/are entitled to nominate 1 director to the board of directors of OU and the term of the appointment will be three years. Any action that may be taken by the shareholders of OU at a meeting may also be taken by a resolution in writing signed by all shareholders of OU. In the event that the shareholder(s) of OU individually or collectively holding 10% shareholding of OU demand(s) a poll, such action should be approved by poll. The board of directors of OU will comprise 10 directors. The chairman of OU will be appointed by Party A and one of the five deputy chairmen will be appointed by Top Ahead. The new composition of the board of directors of OU will be nominated by the shareholders of OU upon Completion.

THE PREMIUM AGREEMENT DATED 15 APRIL 2006

On 15 April 2006, the Existing OU Shareholders and the New OU Shareholders also entered into the Premium Agreement pursuant to which, given the massive work done, including but not limited to a series of project studies, and discussion and negotiations with the local government of St. Petersburg, Russia in relation to the lease of the Land for the Baltic Pearl Project by the Existing OU Shareholders before the Subscription, Top Ahead and Shanghai Jiangong agreed to pay the Existing OU Shareholders RMB30,000,000 and RMB10,000,000 respectively, being 20% of the respective subscription amounts under the Subscription Agreement, as premium. The Existing OU Shareholders will be entitled to receive the aggregate premium of RMB40,000,000 in proportion to their respective shareholdings in OU before the Subscription. The aggregate premium of RMB40,000,000 shall be paid by the New OU Shareholders within 30 days after Completion. Except for Completion, there is no any other condition attached thereto.

THE JOINT VENTURE AGREEMENT DATED 15 APRIL 2006

Parties

Top Ahead	:	Top Ahead International Limited, a company incorporated in the BVI with limited liability and directly wholly owned by the Company
Shanghai Shiye	:	上海實業（集團）有限公司 (Shanghai Industrial Investment (Holdings) Co. Ltd.), a company incorporated in Hong Kong with limited liability and wholly owned by Shanghai municipal government and is principally engaged in international trading, pharmaceutical, real estate, construction of infrastructure facilities and information technology
OU	:	上海海外聯合投資股份有限公司 (Shanghai Overseas United Investment Company Limited), a domestic joint stock limited company in the PRC and currently owned by the Existing OU Shareholders
the Company	:	Shimao International Holdings Limited, a company incorporated in Bermuda with limited liability and the securities of which are currently listed on and dealt in the Stock Exchange with the stock code of 649
Burla	:	Burla Group Limited, a company incorporated in the BVI with limited liability and currently owned by the Nominee

To the best knowledge of the Directors, each of Shanghai Shiye, OU, Burla and their respective ultimate beneficial owners is an Independent Third Party.

Formation of Burla

As at the Latest Practicable Date, the authorized share capital of Burla is US$50,000 divided into 50,000 Burla Shares of US$1.00 each and 1 Burla Share has been issued and allotted to the Nominee.

Pursuant to the Joint Venture Agreement, within 30 days after the conditions of the Joint Venture Agreement have been fulfilled or waived, (i) the authorized share capital of Burla will be increased from US$50,000 to US$15,000,000 divided into 15,000,000 Burla Shares of US$1.00 each; (ii) Top Ahead will acquire 1 Burla Share from the Nominee for a cash consideration of US$1.00; (iii) Top Ahead will subscribe for 7,649,999 Burla Shares for a cash consideration of US$7,649,999; (iv) Shanghai Shiye will subscribe for 3,750,000 Burla Shares for a cash consideration of US$3,750,000; and (v) OU will subscribe for 3,600,000 Burla Shares for a cash consideration of US$3,600,000. Upon completion of the Joint Venture Agreement, Burla will be owned as to 51%, 25% and 24% by Top Ahead, Shanghai Shiye and OU respectively.

The board of directors of Burla will comprise five directors, of which three directors, one director and one director will be appointed by Top Ahead, Shanghai Shiye and OU respectively and the chairman of Burla will be appointed by Top Ahead. The formation of Burla by the parties to the Joint Venture Agreement is for the purpose of investing in the Project Company. Pursuant to the terms of the Joint Venture Agreement, Burla will invest or acquire 45% of the issued share capital of the Project Company at a consideration of approximately US$13,500,000 upon completion of the Joint Venture Agreement.

Conditions of the Joint Venture Agreement

Completion of the Joint Venture Agreement is conditional upon the following conditions precedent having been satisfied:

(i) the parties to the Joint Venture Agreement having obtained all necessary consents and approvals from the relevant governmental and regulatory authorities (including those consents and approvals from the Stock Exchange, 國家外匯管理局 (State Administration of Foreign Exchange) and 中華人民共和國商務部 (Ministry of Commerce of the People's Republic of China) or a third party for the performance of the Joint Venture Agreement and the transactions contemplated therein;

(ii) the Joint Venture Agreement and the transactions contemplated therein having been approved by the Shareholders at a special general meeting of the Company pursuant to the Listing Rules, or if permitted by the Listing Rules, a written approval of the Joint Venture Agreement and the transactions contemplated therein having been given by the majority shareholder(s) in lieu of a special general meeting of the Company; and

(iii) the Subscription Agreement having been completed and become effective and Top Ahead having acquired interest in approximately 15.7895% of the issued share capital of OU as enlarged by the Subscription.

If any of the above conditions is not fulfilled or waived within 4 months after the date of the Joint Venture Agreement or such other date as shall be agreed between the parties to the Joint Venture Agreement, the Joint Venture Agreement shall have no further legal force and effect but without prejudice to the rights of any party in respect of any antecedent breaches thereof. As at the Latest Practicable Date, the Company has no intention to waive any of the above conditions precedent.

The undertaking by Shanghai Shiye

In the event that Shanghai Shiye is requested to provide guarantee to OU for the funding requirement of the Project Company, Shanghai Shiye will provide an unconditional and direct guarantee to OU in proportion to Shanghai Shiye's 11.25% indirect effective interest on the Project Company for the funding requirement of the Project Company (on the condition that all other shareholders of OU are also required to provide guarantee to OU in proportion to their respective indirect effective interest in the Project Company).

THE DEED OF UNDERTAKING DATED 15 APRIL 2006

Parties

A. *The Company*

the Company	:	Shimao International Holdings Limited, a company incorporated in Bermuda with limited liability and the securities of which are currently listed on and dealt in the Stock Exchange with the stock code of 649

in favour of:

B. *Beneficiaries*

Party A	:	上海上實（集團）有限公司 (SIIC Shanghai (Holding) Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of Shanghai Industrial Investment (Holdings) Co. Ltd. which is an investment holding company wholly owned by the Shanghai municipal government
Party B	:	上海實業發展股份有限公司 (Shanghai Industrial Development Co., Ltd.), a company incorporated in the PRC with limited liability and the shares of which are currently listed on and dealt in the Stock Exchange of Shanghai with the stock code of 600748
Party C	:	上海海外公司 (Shanghai Overseas Enterprises Corporation), a company incorporated in the PRC and a subsidiary of Shanghai Industrial Investment (Holdings) Co. Ltd. which is an investment holding company wholly owned by the Shanghai municipal government

Party D	:	百聯集團有限公司 (Bailian Group Co., Ltd.), a state owned company incorporated in the PRC with limited liability which is a distribution conglomerates with department stores, supermarkets and convenience stores etc.
Party E	:	錦江國際(集團)有限公司 (JinJiang International Holdings Co., Ltd.), a state owned company incorporated in the PRC with limited liability which is a travel and hotel conglomerates in the PRC
Party F	:	上海綠地(集團)有限公司 (Shanghai Greenland (Group) Co., Ltd.), a company incorporated in the PRC with limited liability which is principally engaged in property investment and development in the PRC
Party G	:	上海工業歐亞發展中心 (Shanghai Euro-Asian Industrial Development Center), a company incorporated in the PRC and owned by Shanghai Economic Committee which is principally engaged in the trading business and investment between the PRC and Russia
Shanghai Jiangong	:	上海建工(集團)總公司 (Shanghai Construction Group), a state owned company incorporated in the PRC which is principally engaged in property construction business in the PRC
OU	:	上海海外聯合投資股份有限公司 (Shanghai Overseas United Investment Company Limited), a domestic joint stock limited company in the PRC and currently owned by the Existing OU Shareholders

To the best knowledge of the Directors, each of the Existing OU Shareholders, Shanghai Jiangong, OU and their respective ultimate beneficial owners is an Independent Third Party.

(i) Pursuant to the Subscription Agreement, Top Ahead will hold approximately 15.7895% shareholding of OU which will directly hold 55% shareholding of the Project Company. Accordingly, Top Ahead will indirectly hold approximately 8.6842% equity interest in the Project Company through OU.

(ii) Pursuant to the Joint Venture Agreement, Top Ahead will hold 51% shareholding of Burla which will directly hold 45% shareholding of the Project Company. Accordingly, Top Ahead will indirectly hold 22.95% equity interest in the Project Company through Burla.

(iii) OU will hold 24% shareholding of Burla which will directly hold 45% shareholding of the Project Company pursuant to the Joint Venture Agreement. Accordingly, OU will indirectly hold 10.8% equity interest in the Project Company through Burla. As Top Ahead will hold approximately 15.7895% shareholding of OU, Top Ahead will indirectly hold approximately 1.7053% equity interest of the Project Company.

As a result, Top Ahead will indirectly hold approximately 33.3395% effective interest in the Project Company upon completion of the Investments including the subscription of 45% of the issued share capital of the Project Company by Burla.

Conditions of the Deed of Undertaking

The obligations of the Company under the Deed of Undertaking are conditional upon the following conditions precedent having been satisfied:

(i) the Company having obtained all necessary consents and approvals from the Stock Exchange or a third party for the entering into of the Deed of Undertaking and the Company's performance of the Subscription Agreement and the transactions contemplated therein and other related transactions through Top Ahead;

(ii) the Deed of Undertaking and the Subscription Agreement and the transactions contemplated therein and other related transactions having been approved by the Shareholders at a special general meeting of the Company pursuant to the Listing Rules, or if permitted by the Listing Rules, a written approval of these transactions having been given by the majority shareholder(s) in lieu of a special general meeting of the Company; and

(iii) all the conditions precedent under the Subscription Agreement having been satisfied.

If any of the above conditions is not fulfilled or waived by the Company within 4 months after the date of the Deed of Undertaking or such other date as shall be agreed by the Company, the Deed of Undertaking shall lapse automatically. As at the Latest Practicable Date, the Company has no intention to waive any of the above conditions precedent.

The Undertakings

As the Company is the sole beneficial shareholder of Top Ahead, the Company undertakes to the Beneficiaries, inter alia, the following:

1. the Company will guarantee to the Beneficiaries the due and punctual performance by Top Ahead of its obligations under the Subscription Agreement, the Supplemental Promoter Agreement and the Supplemental Articles of Association;

2. upon Completion and during the period when Top Ahead becomes a shareholder of OU (the "Period"), except with the prior written consent of the Beneficiaries:

   (i) the Company will be the sole beneficial shareholder of Top Ahead and the Company will not transfer all or any part of its shareholding in Top Ahead to any third party or procure any other third party to have any interest in Top Ahead;

   (ii) Top Ahead will not issue any of its shares to any other third party; and

   (iii) the Company will not pledge all or any part of its shareholding in Top Ahead to any third party.

3. during the Period, in the event that Top Ahead is unable to duly pay the subscription money to OU according to the Subscription Agreement, the Supplemental Promoter Agreement or the Supplemental Articles of Association, the Company will pay the subscription money to OU directly on behalf of Top Ahead upon the receipt of the written request by all the Beneficiaries.

4. during the Period, in the event that Top Ahead is requested to provide guarantee to OU for the funding requirement of the Project Company according to the Subscription Agreement, the Supplemental Promoter Agreement or the Supplemental Articles of Association or under the shareholders' and/or board resolutions of OU, the Company will provide an unconditional and direct guarantee to OU in proportion to Top Ahead's approximately 33.3395% indirect effective interest in the Project Company for the funding requirement of the Project Company (on the condition that all other shareholders of OU are also required to provide guarantee to OU in proportion to their respective indirect effective interests on the Project Company).

THE DEED DATED 15 APRIL 2006

Parties

Shanghai Shiye	:	上海實業(集團)有限公司 (Shanghai Industrial Investment (Holdings) Co. Ltd.), a company incorporated in Hong Kong with limited liability and wholly owned by Shanghai municipal government and is principally engaged in international trading, pharmaceutical, real estate, construction of infrastructure facilities and information technology

in favour of:

the Company : Shimao International Holdings Limited, a company incorporated in Bermuda with limited liability and the securities of which are currently listed on and dealt in the Stock Exchange with the stock code of 649

To the best knowledge of the Directors, each of Shanghai Shiye and its ultimate beneficial owners is an Independent Third Party.

Upon completion of the Subscription Agreement and the Joint Venture Agreement and all the subscription moneys being paid, Top Ahead will hold approximately 15.7895% shareholding of OU and 51% shareholding of Burla. Under the terms of the Joint Venture Agreement, if Burla cannot acquire 45% of the issued share capital of the Project Company at a consideration of approximately US$13,500,000 six months after Burla having provided all the necessary documents pursuant to the legal requirements of the place of incorporation of the Project Company, then:

A. Shanghai Shiye and/or its nominee will buy back Top Ahead's approximately 15.7895% shareholding in OU and 51% shareholding in Burla at a consideration equal to the aggregate of all subscription moneys paid for the OU Subscription and the Burla Subscription without interest;

B. Shanghai Shiye will assume all obligations of the Company under the Deed of Undertaking or procure all obligations of the Company under the Deed of Undertaking to be discharged or released;

C. Shanghai Shiye will procure the cancellation or transfer of, or assume all obligations of the Company under, the guarantee provided by the Company under the Deed of Undertaking; and

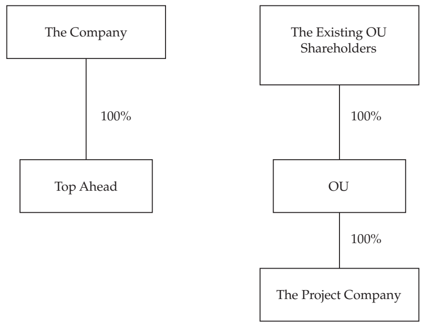
D. Shanghai Shiye will procure the refund of the premium paid for the OU Subscription under the Premium Agreement to the Company without interest.

The Company will pay HK$10.00 to Shanghai Shiye in consideration of Shanghai Shiye giving the above undertakings in favour of the Company.

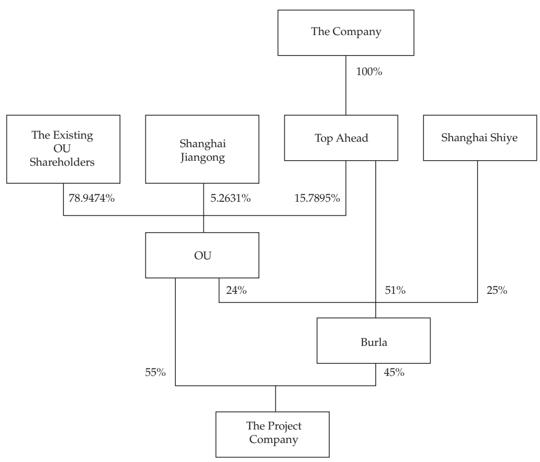
The entering into the Deed was negotiated on an arm's length basis between the Company and Shanghai Shiye as requested by the Company. In view that the Project Company is currently wholly owned by OU which is in turn controlled by the group companies of Shanghai Industrial Investment (Holdings) Co. Ltd., it is appropriate for Shanghai Shiye to buy back approximately 15.7895% of the issued share capital of OU and 51% of the issued share capital of Burla from Top Ahead in the event that Burla is unable to acquire 45% shareholding of the Project Company at a consideration of approximately US$13,500,000.

SHAREHOLDING STRUCTURE

The diagram below shows the current corporate and shareholding structure of the Group and OU Group:



The diagram below shows the corporate and shareholding structure of the Group upon completion of the Investments including the subscription of 45% of the issued share capital of the Project Company by Burla:



The interests in Burla can be further analysed as follows:

Held by Top Ahead	
Direct	51.00%
Indirect through OU	
(15.7895% x 24%)	3.79%
	54.79%
Minority interests	
– Shanghai Shiye	25.00%
– The Existing OU Shareholders	
(78.9474% x 24%)	18.95%
– Shanghai Jiangong	
(5.2631% x 24%)	1.26%
	45.21%
	100.00%

The interests in the Project Company can be further analysed as follows:

Held by Top Ahead	
Through OU only	
(15.7895% x 55%)	8.68%
Through OU and Burla	
(15.7895% x 24% x 45%)	1.71%
Through Burla (51% x 45%)	22.95%*
	33.34%
Held by other parties which classified as minority interests of Burla	
Shangai Shiye (25% x 45%)	11.25%
The Existing OU Shareholders	
(78.9474% x 24% x 45%)	8.52%
Shanghai Jiangong	
(5.2631% x 24% x 45%)	0.57%
	20.34%*
Enlarged Group's share in the Project Company	53.68%
Held by other parties which classified as partners of OU	
The Existing OU Shareholders	
(78.9474% x 55%)	43.42%
Shanghai Jiangong	
(5.26% x 55%)	2.90%
	46.32%
	100.00%

* *Enlarged Group's share of the Project Company via Burla of 43.29%*

THE INVESTMENTS

The main purpose of the Investments, comprising the OU Subscription, the entering into of the Premium Agreement and the Burla Subscription, is for engaging in the property investment and development in the Baltic Pearl Project.

The total consideration, being the aggregate of the subscription money for the OU Subscription of RMB150,000,000 (approximately HK$144,231,000), the premium for the OU Subscription of RMB30,000,000 (approximately HK$28,846,000) and the subscription money for the Burla Subscription of US$7,650,000 (approximately HK$59,670,000), payable by Top Ahead for the Investments will be approximately HK$232,747,000. The Company will also pay HK$10.00 to Shanghai Shiye in consideration of Shanghai Shiye giving undertakings in favour of the Company under the Deed.

The total consideration of approximately HK$232,747,000 was negotiated on an arm's length basis and was determined with reference to the registered capital of OU, the unaudited consolidated net assets of the OU Group, the registered capital of Burla and the valuation surplus after deferred taxation effect of the land lease rights in the Land. The total consideration of approximately HK$232,747,000 represents a discount of approximately 50.61% to the aggregate (i) 15.7895% of the enlarged equity of the OU Group (after adjustments for certain pre-acquisition reserves) amounting to approximately HK$130,301,000; (ii) 51% of the issued share capital of Burla amounting to US$7,650,000 (approximately HK$59,670,000) upon completion of Burla Subscription; and (iii) 33.3395% (being the effective interest of Top Ahead in the Project Company) of the revaluation surplus after deferred taxation effect of the land lease rights in the Land amounting to approximately HK$281,237,000.

The funding to be injected by Top Ahead for the Investments will be financed by the Loan from the Controlling Shareholder. Pursuant to the loan agreement dated 15 April 2006, the Controlling Shareholder agreed to advance a loan in the principal amount of HK$232,747,000 to the Company for a term of four years at the interest rate of 2% per annum and the provision of loan by the Controlling Shareholder is not interconditional on completion of any of the Agreements. The Company has an option to make repayment(s) of the Loan from the Controlling Shareholder or to extend the repayment date for two years after the maturity date. Pursuant to Rule 14A.65(4) of the Listing Rules, as the Loan from the Controlling Shareholder is for the benefit of the Company on normal commercial terms where no security over the assets of the Company is granted in respect of the Loan from the Controlling Shareholder, the Loan from the Controlling Shareholder is exempt from reporting, announcement, and the independent shareholders' approval requirements under the Listing Rules.

As the Controlling Shareholder is not a party to any of the Agreements and the loan agreement is not interconditional on completion of any of the Agreements, the Controlling Shareholder is not a party to the Investments. The interest rate under the Loan from the Controlling Shareholder is 2% per annum which is substantially lower than the existing borrowing costs of the Company and is lower than the deposit rate prevailing in the market. Accordingly, the Loan from the Controlling Shareholder is to the benefit of the

Company and the interest payment to the Controlling Shareholder could not be considered as an arrangement conferring upon the Controlling Shareholder a benefit not available to the other Shareholders. In addition, pursuant to the non-competition undertaking dated 19 February 2005 entered into between the Company and other parties, Mr. Hui and the relevant parties undertake to the Company not to carry on any property business outside the PRC, subject to certain exceptions. Accordingly, the interests of Mr. Hui in any property projects outside the PRC could only be held through the Company, under which and the interests of Mr. Hui and other Shareholders are the same. On such basis, the Controlling Shareholder is not required to abstain from voting.

The structure of the Investments, including the entering into the OU Subscription and the Burla Subscription, was negotiated on an arm's length basis between the Company and the parties to the Agreements. The structure of the Investments would enable the Company to access to other investment opportunities in Russia through the OU Subscription; otherwise, solely the Burla Subscription would restrict the Company's interest to the Project Company. In addition, as more funding is required if the Company holds 33.3395% of the Project Company through capital injection to OU only, the Company considered that the existing structure of the Investments enable the Company to hold 33.3395% effective interest of the Project Company with less funding requirement is in the interests of the Company and the Shareholders as a whole.

INFORMATION ON OU AND THE BALTIC PEARL PROJECT

OU is a domestic joint stock limited company incorporated in the PRC on 9 December 2004. As at the Latest Practicable Date, OU has a registered capital of RMB750,000,000 divided into 750,000,000 shares of RMB1.00 each, of which 750,000,000 OU Shares were issued and allotted and are fully paid by the Existing OU Shareholders. As at the Latest Practicable Date, OU is owned as to approximately 20%, 20%, 13.3333%, 13.3333%, 13.3333%, 13.3333% and 6.6668% by Party A, Party B, Party C, Party D, Party E, Party F and Party G respectively.

The scope of business of OU includes enterprise investments, import and export of goods and technology, development and provision of services of science technology, social economic consultation and domestic trading. The primary current assets of OU are (i) the cash balance of approximately HK$594,000,000 as at 31 December 2005 and (ii) its 100% interest in the Project Company. The Project Company, established in Russia as a wholly foreign owned enterprise on 22 March 2005 with fully paid authorised capital of RUB76,000,000 (approximately US$2,746,000), is the project company of the Baltic Pearl Project which will be carried out at the Land. Pursuant to the terms of the Joint Venture Agreement, Burla will invest or acquire 45% of the issued share capital of the Project Company upon completion of the Joint Venture Agreement. Thereafter, it is expected that the registered capital of the Project Company will be increased to US$30,000,000, of which US$13,500,000 and US$16,500,000 will be contributed by Burla and OU respectively. Apart from the investment in the Project Company, it is the intention of the Existing OU Shareholders and the New OU Shareholders to use the uninvested fund of OU to invest in the trading and property development and investment projects in Russia if opportunities arise.

On 14 May 2005, the Project Company as lessee entered into a lease (the "Land Lease Contract") with the Russian Party as lessor, pursuant to which the Project Company agreed to lease the Land from the Russian Party for development for a term of 8 years commencing on the official handover of the Land with a right of prolongation for a term of 49 years after completion of the development at a lump sum land rent of US$10,000,000. The Project Company has paid the lump sum land rent for a term of 8 years of US$10,000,000 on 23 January 2006. The official handover date of the Land is 5 January 2006.

Pursuant to the Land Lease Contract, if the Project Company does not sell the constructed properties and wants to retain them for long term investment purpose (over 8 years), it is entitled to apply for buying out the land under the constructed properties, or it may exercise its right of prolongation for a further term of 49 years by entering into a new lease between the Russian Party and the Project Company. The Project Company will not be required to pay any money to exercise its right of prolongation but under the new lease, the Project Company will be obliged to pay yearly (or monthly) rent in the amount to be fixed by the parties. Other conditions of the new lease (except the term) are freely decided by the parties.

The Land is one land parcel at Petergofskoe shosse, Krasnoselskyi raion, St. Petersburg, Russia with a total site area of 1,640,717 sq.m. which is designated to be developed as the Baltic Pearl Project. It is planned that the Baltic Pearl Project will include a multifunctional complex encompassing residential buildings, hotels, offices, shopping and entertainment facilities, health and social centres, convention centre and other facilities. Pursuant to the Land Lease Contract, the anticipated floor area of residential development is approximately 1,061,700 sq.m., and the estimated population is 35,400. The Project Company also undertakes to (i) design and build the social infrastructure facilities of an approximate value of US$40,000,000 and the engineering infrastructure facilities of an approximate value of US$200,000,000 and (ii) transfer the ownership of the social infrastructure facilities and the engineering infrastructure facilities to the city of St. Petersburg upon completion of these facilities.

The Baltic Pearl Project is planned to be divided into four areas and will be developed in four phases. It is expected that the total investment costs for the Baltic Pearl Project will be US$1,313 million (approximately HK$10,241.4 million), of which approximately US$45.4 million will be funded by the shareholders of the Project Company in form of registered capital and shareholders' loans, approximately US$500 million will be financed by loans from 中國進出口銀行 (The Export and Import Bank of China) and the remaining approximately US$767.6 million will be generated from the sales proceeds of properties from the Project Company. The Land is currently vacant. It is expected that the construction of the Baltic Pearl Project will commence in mid 2006.

The land lease rights in the Land is valued by Sallmanns (Far East) Limited, the independent valuer, at a value of US$154,000,000 (approximately HK$1,201,200,000) as at 31 March 2006. Details of the valuation report of the Land are set out in Appendix IV to this circular.

An accountants' report containing audited financial information of the OU Group for the for the period from 9 December 2004 (date of incorporation) to 31 December 2004 and for the year ended 31 December 2005 is set out in Appendix I to this circular.

Financial review for the period from 9 December 2004 (date of incorporation) to 31 December 2004

No revenue of the OU Group was recorded as OU has not commenced its business since its date of establishment on 9 December 2004. The OU Group recorded other gains and profit before and after taxation of approximately HK$482,000 for the period which comprised bank interest income. Its cash and bank balance as at 31 December 2004 amounted to approximately HK$704,834,000 and the gearing ratio of the OU Group as at 31 December 2004 was not applicable as the OU Group was dormant and there were no interest-bearing bank borrowings as at 31 December 2004.

Financial review for the year ended 31 December 2005

The OU Group recorded other gains of HK$37,197,000 for the year ended 31 December 2005 which comprised interest incomes from bank and on loans to shareholders of OU and exchange gain. For the year ended 31 December 2005, the OU Group recorded loss before and after taxation of approximately HK$32,654,000 which was mainly attributable to the expenses for professional and consultancy, marketing, travelling and general and administrative for the Baltic Pearl Project. The net assets of the OU Group as at 31 December 2005 were approximately HK$666,511,000. Based on the valuation of the land lease rights of the Land of US$154,000,000 (approximately HK$1,201,200,000) as at 31 March 2006 and the corresponding book value as at 31 December 2005, the revaluation surplus after deferred taxation effect attributable to the Land amounted to approximately HK$843,555,000 and 33.3395% (being the effective interest of Top Ahead in the Project Company) of the revaluation surplus after deferred taxation effect of the land lease rights in the Land amounting to approximately HK$281,237,000.

The total assets of the OU Group comprised non-current asset of approximately HK$14,409,000, other receivables, deposits and prepayments of approximately HK$4,529,000, amount due from a shareholder, Party C, of approximately HK$28,825,000 and cash and bank balances of approximately HK$627,876,000.

The total liabilities of the OU Group comprised trade and other payables of approximately HK$9,128,000.

The gearing ratio of the OU Group was approximately 0.0135 (total liabilities of approximately of HK$9,128,000 divided by total assets of approximately HK$675,639,000) and there were no interest-bearing bank borrowings as at 31 December 2005.

ST. PETERSBURG, RUSSIA

Based on the data set out in Hong Kong Trade Development Council, the gross domestic products of Russia for the year ended 31 December 2003 amounted to approximately US$430 billion whilst the estimated gross domestic products of Russia for the year ended 31 December 2004 amounted to approximately US$582 billion.

According to the data of the Ministry of Commerce of the PRC, the PRC's total trade with Russia amounted to US$13.2 billion for the eleven months from January 2004 to November 2004 and the total investments from foreign countries in Russia amounted to US$18.98 billion for the first six months of 2004.

St. Petersburg, the second largest city in Russia, is situated in the north-west of Russia in the Neva River delta on the eastern coast of the gulf of Finland and occupies, together with the administratively subordinated territories, the territory of 1,439 square kilometers. The city is advantageously located at the sea routes and on land roads. It is the European gateway of Russian and is a strategic centre which is closest to the European Union countries of Russia. St. Petersburg is well-known for its unique historical and cultural monuments and matchless architectural ensembles. The city government has worked out the program of the St. Peterburg development as a world-wide-reorganized tourist center, aiming to make the city as a leader of international tourism.

According to the last census that took place in 1997, there were approximately 4,780,000 people in St. Petersburg.

REASONS FOR THE INVESTMENTS

The principal activity of the Company is investment holding. The Group's current principal business is property development and investment. The Group strategically focused on the development of the international real estate and investment business by actively exploring opportunities in overseas markets. Under the new business direction, the Group continues to aggressively enhance its competitiveness so as to capture every potential opportunity.

With the favourable backdrop of bilateral strategic partnership between the PRC and Russia, and built on the strength of the sister city relationships of Shanghai and St. Petersburg, the Existing OU Shareholders has acknowledged the support from the local government of St. Petersburg to develop the Baltic Pearl Project. This is being achieved by a series of project studies, and discussion and negotiations with the local government. On 18 December 2004, the foundation of the Baltic Pearl Project was laid down in the discussion between the Existing OU Shareholders and the mayor of St. Petersburg. Further, on 21 March 2006, 中國進出口銀行 (The Export and Import Bank of China), OU and the city government of St. Petersburg have entered into the strategic cooperation agreement in relation to the Baltic Pearl Project, pursuant to which 中國進出口銀行 (The Export and Import Bank of China) has confirmed that it will provide a US$500 million 8 year term loan for the Baltic Pearl Project. As such, with the foundation laid down by OU in relation to the Baltic Pearl Project, the Board believes that the Investments represent the important step to further realizing the strategic business focus of the Company.

In view that the total consideration of approximately HK$232,747,000 represents a discount of approximately 50.61% to the aggregate (i) 15.7895% of the enlarged equity of the OU Group (after adjustments for certain pre-acquisition reserves) amounting to approximately HK$130,301,000; (ii) 51% of the issued share capital of Burla amounting to US$7,650,000 (approximately HK$59,670,000) upon completion of Burla Subscription; and (iii) 33.3395% (being the effective interest of Top Ahead in the Project Company) of the revaluation surplus after deferred taxation effect of the land lease rights in the Land amounting to approximately HK$281,237,000 as mentioned in the section "The Investments" above, the Board considers that the payment of the premium of RMB30,000,000 is fair and reasonable and the entering into the Premium Agreement is in the interests of the Company and the Shareholders as a whole.

The Board considers that the terms of the Agreements are on normal commercial terms and are fair and reasonable and the Investments are in the interests of the Company and the Shareholders as a whole.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned in the 2005 annual report, 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.

During the year under review, the Group successfully acquired 100% interest in Value Ahead Investment Limited ("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 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.

Financial Review for the year ended 31 December 2005

Financial Performance

For the year ended 31 December 2005, the 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 92% as compared with last year. The decrease in turnover was mainly because most properties of Shimao Lakeside Garden have been sold with the majority of the revenue recognised prior to 2004. Therefore, contribution from the project for the year was insignificant. Moreover, since 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 revenue from the pre-sale of Suifenhe Shimao during the year has not been recognised. Profit attributable to shareholders of the Group during the period decreased to HK$109,009,000.

2005 is the first year of adoption of applicable new accounting standards. Accordingly, changes in fair value of investment properties were required to be recognised in the profit and loss, resulting in a gain on revaluation of investment properties (net of deferred tax) of HK$150,510,000.

Finance cost increased substantially during the year, mainly contributable to the amortised cost and interest on promissory notes and convertible note. The rise in interest rate also contributed to the increase in finance cost.

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 31 December 2005, total assets of the Group reached HK$2,158,359,000, of which current assets amounted to HK$313,516,000, total liabilities was HK$1,410,487,000, non-current liabilities was HK$1,039,023,000 and equity attributable to the shareholders of the Company amounted to HK$747,872,000, increased by 13% over HK$661,795,000 of last year .

Moreover, as at 31 December 2005, the Group had aggregate cash and bank balances of approximately HK$27,574,000 (31 December 2004: HK$18,359,000) and bank borrowings of approximately HK$407,639,000 (31 December 2004: HK$196,420,000). Average interest rate of the bank loans ranged between 1.6% to 6.0%.

Pledge of Assets

As at 31 December 2005, the Group had leasehold land and buildings with a total carrying amount of approximately HK$518,974,000 (31 December 2004: HK$522,407,000) under pledge in favour of banks to secure the facilities granted to the Group. The facilities utilised as of 31 December 2005 amounted to HK$407,639,000 (31 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 do not expect substantial exchange fluctuation risks to the Group. However, it cannot be guaranteed that exchange risk will not affect the Group's business in the future. As at 31 December 2005, the Group had not issued any financial instrument nor entered into any contract for hedging purpose.

Financial Policies

The Group will continue to control financial risks in a prudent manner and proactively adopt internationally-recognised corporate management standards to safeguard the interests of shareholders.

Employees and Remuneration Policy

As at 31 December 2005, the Group employed a total of 124 employees. The benefits and remuneration packages of the staff of the Group are determined according to individual experience and academic attainments with reference to general market conditions. Year-end bonuses 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 employees.

FINANCIAL EFFECTS OF THE INVESTMENTS ON THE GROUP

Pursuant to the Articles of OU, the board of directors of OU shall consist of 10 directors and the power of directors includes (1) to decide operational plans and investment decisions; (2) to formulate plans for distribution of profits; (3) to determine the mortgage, lease and transfer of material assets; (4) to formulate plans for the merger, division and dissolution; (5) to establish internal management structure; (6) to formulate basic management system. To the best knowledge of the Company, Top Ahead shall appoint two directors to the board of OU and one of these directors on board of OU will be the Chief Executive Officer of the Project Company to provide technical advice and managerial expertise to OU and the Project Company.

Based on the above, the Directors are of the view that, subject to the completion of the acquisition of the Investments, the Company will have significant influence over OU and the Project Company and have control over Burla. As such, investments in OU and the Project Company will be accounted for as associated companies whereas investment in Burla will be accounted for as a subsidiary.

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 2005 were approximately HK$2,158 million and the unaudited pro forma total assets of the Enlarged Group would amount to approximately HK$2,848 million. The audited total liabilities of the Group as at 31 December 2005 were approximately HK$1,410 million and the unaudited pro forma total liabilities of the Enlarged Group would amount to approximately HK$1,577 million. It is expected that the Investments will not have any adverse effect on the earnings of the Group.

ADDITIONAL INFORMATION

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

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

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

The Directors
Shimao International Holdings Limited

13 June 2006

Dear Sirs,

We set out below our report on the financial information relating to Shanghai Overseas United Investment Company Limited ("OU") and its subsidiary (hereinafter collectively referred to as the "OU Group") for the period from 9 December 2004 (date of incorporation of OU) to 31 December 2004 and the year ended 31 December 2005 (collectively referred as to the "Relevant Periods"), for inclusion in the circular of Shimao International Holdings Limited ("Shimao International") dated 13 June 2006 in connection with the proposed acquisition of 15.79% interest in OU by Shimao International.

OU is a domestic joint stock limited company incorporated in the People's Republic of China (the "PRC") on 9 December 2004 as an investment holding company. The subsidiary, ZAO Baltyiskaya Zhemchuzhina (the "Project Company"), established in Russia as a wholly foreign owned enterprise, is engaged in property investment and development. Both OU and the Project Company have adopted 31 December as their financial year end.

OU has prepared its statutory accounts in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises (the "PRC GAAP") and were audited by Shanghai Qiu-Shi Certified Public Accountants Co., Ltd, PRC registered accountant. The statutory accounts of the Project Company have not been issued yet.

The financial information as set out in Sections I and II below (the "Financial Information") has been prepared based on the PRC GAAP statutory accounts of OU and the unaudited management accounts of the Project Company prepared under the relevant accounting principles and financial regulations applicable to enterprises established in Russia for the Relevant Periods, after making adjustments as appropriate to comply with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the respective companies comprising the OU 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 for the Relevant Periods in accordance with the Hong Kong Standards on Auditing 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 OU and Shimao International 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 and prepared on the basis set out in note 2.1 of Section II below, gives a true and fair view of the state of affairs of OU and of the OU Group as at 31 December 2004 and 2005, and of the consolidated results and cash flows of the OU Group for the Relevant Periods.

I FINANCIAL INFORMATION

(a) Consolidated profit and loss account

	Note	From 9 December to 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000
Other gains, net	6	482	37,197
Less: Expenses			
Professional and consultancy		–	18,229
Marketing		–	12,542
Travelling		–	12,470
General and administrative	7	–	17,957
Employee benefits	8	–	8,653
		–	(69,851)
Profit/(loss) for the period/year		482	(32,654)
Earnings/(loss) per share			
Basic and diluted	11	HK0.06 cents	HK(4.35) cents

(b) Consolidated balance sheets

	Note	As at 31 December 2004 HK$'000	2005 HK$'000
ASSETS			
Non-current asset			
Property, plant and equipment	*12*	–	14,409
Current assets			
Other receivables, deposits and prepayments	*14*	–	4,529
Amount due from a shareholder	*15*	–	28,825
Bank balances and cash	*16*	704,834	627,876
		704,834	661,230
Total assets		704,834	675,639
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	704,352	704,352
Reserves	*18*	482	(37,841)
Total equity		704,834	666,511
LIABILITIES			
Current liabilities			
Trade payables		–	7,882
Other payables and accruals		–	1,246
Total liabilities		–	9,128
Total equity and liabilities		704,834	675,639
Net current assets		704,834	652,102
Total assets less current liabilities		704,834	666,511

(c) Balance sheets

		As at 31 December	
		2004	**2005**
	Note	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	–	28
Investment in a subsidiary	*13*	–	21,614
Loan to a subsidiary	*13*	–	52,961
		–	74,603
Current assets			
Amount due from a shareholder	*15*	–	28,825
Bank balances and cash	*16*	704,834	594,015
		704,834	622,840
Total assets		704,834	697,443
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	704,352	704,352
Reserves	*18*	482	(7,627)
Total equity		704,834	696,725
LIABILITY			
Current liability			
Other payables and accruals		–	718
Total liability		–	718
Total equity and liability		704,834	697,443
Net current assets		704,834	622,122
Total assets less current liability		704,834	696,725

(d) Consolidated statements of changes in equity

	Attributable to equity holders of the Company			
	Share capital *HK$'000*	**Exchange reserve** *HK$'000*	**Retained profit/ (accumulated loss)** *HK$'000*	**Total** *HK$'000*
At 9 December 2004	–	–	–	–
Profit for the period	–	–	482	482
Issuance of share capital	704,352	–	–	704,352
At 31 December 2004	704,352	–	482	704,834
Currency translation difference	–	(5,669)	–	(5,669)
Loss for the year	–	–	(32,654)	(32,654)
At 31 December 2005	704,352	(5,669)	(32,172)	666,511

(e) Consolidated cash flow statements

	Note	From 9 December to 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000
Operating activities			
Net cash used in operations	19	–	(94,030)
Interest received		482	7,731
Net cash from/(used in) operating activities		482	(86,299)
Investing activities			
Purchase of property, plant and equipment		–	(14,732)
Interest received		–	9,236
Net cash used in investing activities		–	(5,496)
Net cash inflow/(outflow) before financing		482	(91,795)
Financing activity			
Issuance of share capital	17	704,352	–
Net cash from financing activity		704,352	–
Increase/(decrease) in cash and cash equivalents		704,834	(91,795)
Effect of foreign exchange rate changes		–	14,837
Cash and cash equivalents at beginning of the period/year		–	704,834
Cash and cash equivalents at end of the period/year		704,834	627,876
Analysis of balances of cash and cash equivalents			
Bank balances and cash	16	704,834	627,876

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

OU is a domestic joint stock limited liability company established in the People's Republic of China (the "PRC") on 9 December 2004 by SIIC Shanghai (Holding) Co., Ltd., Shanghai Industrial Development Co., Ltd., Shanghai Overseas Enterprises Corporation, Bailian Group Co., Ltd., JinJiang International Holdings Co., Ltd., Shanghai Greenland (Group) Co., Ltd and Shanghai Euro-Asian Industrial Development Center (collectively the "Existing OU Shareholders") at effective interest of approximately 20%, 20%, 13.33%, 13.33%, 13.33%, 13.33% and 6.67% respectively. The address of its registered office is fifth Floor, Gao Yang Commercial Centre, 815 Dong Da Ming Road, Shanghai, the PRC. These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

The scope of business of OU includes enterprise investments, import and export of goods and technology, development and provision of services of science technology, social economic consultation and domestic trading. The primary current assets of OU are the cash balance of approximately HK$594 million as at 31 December 2005 and (ii) its 100% interest in the Project Company. The Project Company, established in Russia as a wholly foreign owned enterprise on 22 March 2005 with fully paid authorised capital of 76,000,000 Russian Roubles, is principally engaged in property investment and development project in St. Petersburg, Russia which is planned to include a mixture of residential, commercial and retail space, hotels, convention centre and other facilities (the "Baltic Pearl Project"). Apart from the investment in the Project Company, it is the intention of the Existing OU shareholders to use the uninvested funds of OU to invest in the trading and property development and investment projects in Russia if opportunities arise.

On 14 May 2005, the Project Company as lessee entered into a lease with Komitet po ypravleniy gorodskim imyshestvom Sankt-Peterburga (St. Petersburg Committee for Managing City Property) (the "Russian Party") as lessor, pursuant to which the Project Company agreed to lease one land parcel at Petergofskoe shosse, Krasnoselskyi raion, St. Petersburg, Russia with a total site area of 1,640,717 sq.m. (the "Land") from the Russian Party for development for a term of 8 years commencing on the official handover of the Land with a right of prolongation for a term of 49 years after completion of the development at a lump sum land rent of US$10,000,000. The Project Company has paid the lump sum land rent for a term of 8 years of US$10,000,000 on 23 January 2006. The official handover date of the Land is 5 January 2006.

Pursuant to the lease contract of the Land, if the Project Company does not sell the constructed properties and would like to retain them for long term investment purpose (i.e. beyond the existing lease term of 8 years), it is entitled to apply for buying out the land under the constructed properties, or it may exercise its right of prolongation for a further term of 49 years by entering into a new lease between the Russian Party and the Project Company. The Project Company will not be required to pay any money to exercise its right of prolongation but under the new lease, the Project Company will be obliged to pay yearly (or monthly) rent in the amount to be fixed by the parties. Other conditions of the new lease (except the term) are freely decided by the parties.

The Land is designated to be developed for the Baltic Pearl Project. It is planned that the Baltic Pearl Project will include a multifunctional complex encompassing residential buildings, hotels, offices, shopping and entertainment facilities, health and social centres, convention centre and other facilities. Pursuant to the lease, the anticipated floor area of residential development is approximately 1,061,700 sq.m., and the estimated population is 35,400. The Project Company also undertakes to (i) design and build the social infrastructure facilities of an approximate value of US$40,000,000 and the engineering infrastructure facilities of an approximate value of US$200,000,000 and (ii) transfer the ownership of the social infrastructure facilities and the engineering infrastructure facilities to the city of St. Petersburg upon completion of these facilities.

The Baltic Pearl Project is planned to be divided into four areas and will be developed in four phases. It is expected that the total investment costs for the Baltic Pearl Project will be US$1,313 million (approximately HK$10,241.4 million), of which approximately US$45.4 million will be funded by OU in form of registered capital and shareholders' loans, approximately US$500 million will be financed by loans from The Export and Import Bank of China and the remaining of approximately US$767.6 million will be generated from the sales proceeds of properties from the Project Company. The Land is currently vacant. It is expected that the construction of the Baltic Pearl Project will commence in mid 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of this Financial Information are set out below. These policies have been consistently applied to the period/year presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") and accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards" has been applied in preparing the Financial Information. As it is the first set of accounts prepared in accordance with HKFRS and OU did not prepare any consolidated accounts in PRC GAAP during the Relevant Periods, accordingly no reconciliation of PRC GAAP to HKFRS is presented. The Financial Information have been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

Standards, interpretations and amendments to published standards that are not yet effective.

Certain new Hong Kong Accounting Standards ("HKAS"), Amendments and Interpretations ("Int") to existing standards have been published that are mandatory for the OU Group's accounting periods beginning on or after 1 January 2006 or later periods but which the OU Group has not early adopted, as follows:

- HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the OU Group's operations, as the OU Group does not participate in any multi-employer plans or defined benefit post retirement benefits plans.

- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the OU Group's current operations, as the OU Group does not have any intragroup transactions that would qualify as a hedged item in the Financial Information as at 31 December 2004 and 2005.

- HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. Management concluded that it is not relevant to the Group's current operations.

- HKAS 39 & HKFRS 4 (Amendments), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The Amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The OU Group assessed the impact of HKFRS 7 and the Amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the Amendment to HKAS 1. The OU Group will apply HKFRS 7 and the Amendment to HKAS 1 from accounting periods beginning 1 January 2007.

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the OU Group's operations.

- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). HKFRS-Int 5 is not relevant to the OU Group's current operations.

- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005). HK(IFRIC)-Int 6 is not relevant to the OU Group's operations.

- HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). HKFRS 6 is not relevant to the OU Group's operations.

- HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Group's operations, as the Group does not carry out exploration for and evaluation of mineral resources.

- HKAS 21 (Amendment), Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment relates to inter-company loans that fund foreign operations. It allows companies to better align treasury strategy and financial reporting and keep foreign exchange volatility on such loans funding foreign operations out of the income statement. Management is currently assessing the impact of HKAS 21 (Amendment) on the OU Group's operations.

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int7 is not relevant to the Group's operations.

2.2 Consolidation

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

Subsidiaries

Subsidiaries are all entities over which the OU Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the OU Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the OU Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the OU Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the OU Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 dividend received and receivable.

2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the OU Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss account during the financial period in which they are incurred.

Depreciation of building, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Furniture, office equipment and motor vehicles	5 years

The residual values of the assets and their useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain and losses on disposal 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.

2.4 Construction in progress

Construction in progress are stated at historical cost less any impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property, plant and equipment or to investment properties.

No depreciation is provided for construction in progress. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.5 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the OU Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.8 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.9 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 consolidated accounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred taxation 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 is controlled by the OU Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.10 Employee benefits

(i) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement scheme obligations

Employees of OU in the PRC and its Russian subsidiary are members of state-managed employee pension schemes operated by relevant governmental bodies which undertake to assume the retirement benefit obligations of all existing and future retired employees. The OU Group's obligation is to make the required contributions under the schemes. All these contributions are based on a certain percentage of the staff's salaries and are charged to the profit and loss account as incurred.

2.11 Provisions

Provisions are recognised when the OU Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.12 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the OU Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The functional currency of OU and its subsidiary is Russian Rouble. The consolidated accounts are presented in Hong Kong dollars for the purpose of this report as the acquirer, Shimao International presents its accounts in Hong Kong dollars.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(c) Group companies

The results and financial position of all the OU Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

2.13 Revenue recognition

Interest income is recognised on a time proportion basis using effective interest method. Dividend income is recognised when the rights to receive payable is established.

2.14 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight-line basis over the period of the lease.

The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

2.15 Dividend distribution

Dividend distribution to OU's shareholders is recognised as a liability in the accounts in the period in which the dividends are approved by OU's shareholders.

2.16 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the OU Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the OU Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3 FINANCIAL RISK MANAGEMENT

The OU Group's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk, cash flow interest rate risk and fair value interest rate risk.

(a) Currency risk

The OU Group is subject to foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operation.

A majority of the Group's transactions, balances and investments are denominated in Russian Roubles and Renminbi. The OU Group does not have a foreign currency hedging policy. At 31 December 2005, the OU Group has a net financial assets position of approximately HK$594 million denominated in Renminbi.

(b) Credit risk

It has policies in place to ensure that the financial assets of the OU Group are placed in financial institutions of high credit worthiness.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market position.

The OU Group aims to maintain flexibility in funding by keeping sufficient cash and cash equivalents and obtaining financial supports from its shareholders.

(d) Cash flow and fair value interest rate risk

The surplus fund of the OU Group is invested in short-term deposits which are exposed to cash flow and fair value interest rate risk arising from changes in market interest rate. The OU Group has not used any derivative instruments to hedge its exposure to interest rate risk. There are no material fixed rate receivables and borrowings in the OU Group.

3.2 FAIR VALUE ESTIMATION

The fair values of trade and other receivables, deposits and prepayments, amounts due from a shareholder, cash and cash equivalents and trade and other payables are assumed to approximate their carrying amount due to the short-term maturities of these assets and liabilities.

The fair values of long-term receivable are estimated using the expected future payments discounted at market interest rates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the accounts are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

Income taxes

The OU Group is subject to income taxes in both the PRC and Russia. Judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

5 SEGMENTAL INFORMATION

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

For management purpose, the OU Group is organised into two operating businesses – property investment and property development. These businesses are the basis on which the OU Group reports its primary segment information. The OU Group generated neither turnover nor profit from property investment and development during the Relevant Periods. The assets held at 31 December 2004 and 2005 were mainly corporate assets. The principal assets employed by the OU Group are located in the PRC and the Russia. Accordingly, only segmental analysis on assets by geographical segments is presented for the Relevant Periods.

Unallocated assets under geographical segment primarily include bank balances and cash and amount due from a shareholder.

	2004	**2005**
	HK$'000	*HK$'000*
Segment assets		
Mainland China	–	28
Russia	–	18,910
	–	18,938
Unallocated	704,834	656,701
Total assets	704,834	675,639
Segment liabilities		
Mainland China	–	718
Russia	–	8,410
	–	9,128
Capital expenditure		
Mainland China	–	32
Russia	–	14,700
	–	14,732

6 OTHER GAINS

	From 9 December to 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*
Interest income from		
– Bank	482	7,731
– Loan to shareholders *(note 21 (a))*	–	9,236
Exchange gain, net	–	20,230
	482	37,197

7 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are stated after charging the following:

	From 9 December to 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*
Contribution to charity fund *(note)*	–	12,663
Operating lease rentals in respect of land and buildings	–	804
Depreciation	–	47
Auditors' remuneration	–	17

Note: Contribution to charity fund represents donation to a charity fund "the Sun" established with a aim of social assistance in different spheres in St. Petersburg, Russia. The economic substance of this transaction is building of relationships with St. Petersburg municipality.

8 EMPLOYEE BENEFITS EXPENSE

	From 9 December to 31 December 2004 *HK$'000*	Year ended 31 December 2005 *HK$'000*
Salaries and other benefits	–	7,527
Pension costs – defined contribution plans *(Note a)*	–	1,126
	–	8,653

Balances include recharge of employee benefit expense from shareholders of HK$5,329,000 for the year ended 31 December 2005 (from 9 December to 31 December 2004: Nil).

(a) Pensions – defined contribution plans

The OU Group contributes to retirement plans for its employees in the Mainland China and Russia at a percentage in compliance with the requirements of the respective municipal governments in the PRC and Russia.

The assets of all retirement schemes are held separately from those of the OU Group in independently administered funds.

(b) Directors' and senior management's emoluments

Except remuneration of HK$51,000 paid to 包季鳴, a director, for the year ended 31 December 2005, there were no fees or other emoluments paid to any other directors during the Relevant Periods.

None of the Directors has waived the right to receive the emoluments.

(c) Five highest paid individuals and key management compensation

The five individuals, also the key management of the OU Group, whose emoluments were the highest in the OU Group for the year include one (2004: nil) director whose emolument is reflected in the analysis presented below.

	From 9 December to 31 December 2004 *HK$'000*	**Year ended 31 December 2005** *HK$'000*
Basic salaries and other emoluments	–	662

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

9 TAXATION

The subsidiary operating in Russia is subject to income tax rate of 24%.

The taxation on the OU Group's profit/(loss) for the period/year differs from the theoretical amount that would arise using the applicable tax rate in which the OU Group operates, as follows:

	From 9 December to 31 December 2004 *HK$'000*	**Year ended 31 December 2005** *HK$'000*
Profit/(loss) for the period/year	482	(32,654)
Tax calculated at applicable tax rate of 24%	116	(7,837)
Effect of different tax rate	43	(202)
Income not subject to taxation	–	(6,888)
Expenses not deductible	–	9,393
Tax losses not recognised	–	5,534
Others	(159)	–
Taxation charge	–	–

As at 31 December 2004 and 2005, the deferred tax assets of HK$Nil and HK$5,638,000 arising from unused tax losses of HK$Nil and HK$23,700,000 have not been recognised by the OU Group. The unused tax losses will be expired after ten years.

As at 31 December 2004 and 2005, OU did not have any material deferred tax assets or liabilities.

10 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDER

The profit/(loss) attributable to shareholder is dealt with the accounts of OU to the extent of a profit of HK$482,000 for the period ended 31 December 2004 and a loss of HK$2,245,000 for the year ended 31 December 2005.

11 EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the loss for the year of HK$32,654,000 (From 9 December 2004 to 31 December 2004: profit of HK$482,000) and the number of 750 million shares in issue during the year/period.

The basic and diluted earnings/(loss) per share are the same since there are no potential dilutive shares.

12 PROPERTY, PLANT AND EQUIPMENT

	Group			Company
	Construction in progress	**Furniture, office equipment and motor vehicles**	**Total**	**Furniture, office equipment and motor vehicles**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 9 December 2004 and 1 January 2005	–	–	–	–
Additions	13,513	1,219	14,732	32
Exchange differences	(254)	(22)	(276)	–
Depreciation	–	(47)	(47)	(4)
Closing net book amount	13,259	1,150	14,409	28
At 31 December 2005				
Cost	13,259	1,197	14,456	32
Accumulated depreciation	–	(47)	(47)	(4)
Net book amount	13,259	1,150	14,409	28

13 INVESTMENT IN A SUBSIDIARY

	As at 31 December	
	2004	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at cost	–	21,614
Loan to a subsidiary *(note (b))*	–	52,961

Particulars of the subsidiary directly held by OU during the Relevant Periods are as follows:

Name	Place of incorporation/ operation	Date of incorporation	Legal status	Issued and fully paid share capital	Direct interest held 2004	Direct interest held 2005	Principal activities
ZAO Baltyiskaya Zhemchuzhina	Russia	22 March 2005	Closed joint-stock company	76,000,000 Russian Roubles divided into 100,000 ordinary shares of 760 Russian Roubles each	–	100%	Property investment and development

Note:

(a) Up to the date of this report, no auditors has been appointed by the Project Company and the local statutory accounts of the Project Company have not been issued yet.

(b) The amount receivable, denominated in US dollars, is unsecured, interest bearing at 15% per annum and is wholly repayable on 2 November 2011.

14 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

As at 31 December 2005, the balances of the OU Group include 9,283,000 Russian Roubles (approximately HK$2,505,000) which are unsecured balances due from an unrelated third party, of which balance of 5,014,000 Russian Roubles (approximately HK$1,353,000) is interest free and repayable in November 2006. The remaining balance of 4,269,000 Russian Roubles (approximately HK$1,152,000) was interest bearing at 3% per annum and was subsequently repaid in January 2006.

15 AMOUNT DUE FROM A SHAREHOLDER

OU Group and Company

The balance, denominated in Renminbi, due from Shanghai Overseas Enterprises Corporation, a shareholder with 13.33% interest in OU, was unsecured and carried interest at 6.138% per annum. The balance was fully repaid on 4 January 2006.

16 BANK BALANCES AND CASH

The OU Group's bank balances and cash were denominated in the following currencies:

	As at 31 December 2004	As at 31 December 2005
	HK$'000	*HK$'000*
Renminbi	704,834	594,015
Russian Roubles	–	28,900
United State dollars	–	4,961
	704,834	627,876

The Company's bank balances and cash were denominated in Renminbi at 31 December 2004 and 2005.

The conversion of Renminbi denominated balances in the PRC and Russian Roubles denominated balance in Russia into foreign currencies and the remittance of the foreign currencies out of the PRC and Russia are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC and Russian governments respectively.

The effective interest rate on bank balances and cash was 2.0% (2004: 1.1%).

17 SHARE CAPITAL

	As at 31 December	
	2004	**2005**
	HK$'000	*HK$'000*
Issued and paid-in capital of RMB750,000,000 divided into shares of RMB1.00 each	704,352	704,352

OU is a domestic joint stock limited liability company established on 9 December 2004. Upon establishment, 750,000,000 shares of RMB1.00 each were issued at par for cash.

18 RESERVES

OU Group

	Exchange reserve	**Retained profit/ (accumulated loss)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Profit for the period	–	482	482
At 31 December 2004	–	482	482
Loss for the year	–	(32,654)	(32,654)
Currency translation difference	(5,669)	–	(5,669)
At 31 December 2005	(5,669)	(32,172)	(37,841)

OU

	Exchange reserve	**Retained profit/ (accumulated loss)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Profit for the period	–	482	482
At 31 December 2004	–	482	482
Loss for the year	–	(2,245)	(2,245)
Currency translation difference	(5,864)	–	(5,864)
At 31 December 2005	(5,864)	(1,763)	(7,627)

19 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

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

	From 9 December to 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000
Profit/(loss) for the period/year	482	(32,654)
Depreciation	–	47
Exchange gain, net	–	(20,230)
Interest income	(482)	(16,967)
Operating loss before working capital changes	–	(69,804)
Increase in other receivables, deposits and prepayments	–	(4,529)
Increase in amount due from a shareholder	–	(28,825)
Increase in trade payables	–	7,882
Increase in other payables and accruals	–	1,246
Net cash used in operations	–	(94,030)

20 COMMITMENTS

OU Group

(a) Capital expenditure commitment

On 18 November 2005, OU was authorised to acquire 51% interest in St. Petersburg Shanghai Trade Company Limited at a consideration of RMB27,091,800. The acquisition is yet to be completed up to the date of this report.

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:

	As at 31 December 2004 HK$'000	2005 HK$'000
Within one year	–	3,091
Between two to five years	–	2,082
	–	5,173

At 31 December 2005, OU Group also has operating lease commitment in respect of the lease of the Land amounted to HK$77,644,000 (note 1).

OU

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

21 RELATED PARTY TRANSACTIONS

During the Relevant Periods, the OU Group entered into the following transactions with its shareholders, which were carried out in the normal course of the OU Group's business:

	Note	From 9 December to 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000
Interest income on loans to shareholders	(a)	–	9,236
Reimbursement of expenses to shareholders	(b)	–	31,877

Notes:

(a) In May 2005, the OU Group entered into the following loan agreements with shareholders. The loans were fully repaid by the respective shareholders in December 2005.

Name of shareholders	Period	Interest per annum	Amount advanced
SIIC Shanghai (Holding) Co., Ltd	27 May to 30 December 2005	6.138%	RMB88 million (approximately HK$85 million)
Shanghai Industrial Development Co., Ltd	27 May to 30 December 2005	6.138%	RMB88 million (approximately HK$85 million)
Shanghai Greenland (Group) Co., Ltd.	24 May to 30 December 2005	6.138%	RMB100 million (approximately HK$96 million)
Shanghai Euro-Asian Industrial Development Center	16 November to 24 December 2005	6.138%	RMB35 million (approximately HK$34 million)

(b) Expenses incurred, including principally professional and consultancy, travelling, employee benefits (note 8), and operating lease rental expenses, on behalf of OU were settled to shareholders on a cost reimbursement basis.

22 SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for OU and the Project Company in respect of any period subsequent to 31 December 2005 and no dividends or other distributions have been declared by OU or the Project Company in respect of any period subsequent to 31 December 2005.

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 2005:

RESULTS

	2005	Restated 2004	2003
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Company and subsidiaries	13,987	6,612	8,334
Share of an associated company	34,515	598,094	570,707
	48,502	604,706	579,041
Company and subsidiaries			
Turnover	13,987	6,612	8,334
Cost of sales	(2,540)	(1,117)	(79)
Gross profit	11,447	5,495	8,255
Excess of fair values of net assets acquired over cost of acquisition	17,976	–	–
Fair value gains on investment properties	224,642	66,913	–
Other gains	1,120	2,154	5,851
Selling expenses	(10,353)	(1,620)	–
Administrative expenses	(41,270)	(37,798)	(26,877)
Other operating expenses	(13,312)	–	(125)
Operating profit before financing	190,250	35,144	(12,896)
Finance costs	(33,154)	(3,516)	(4,811)
Share of profit of an associated company	6,012	170,025	192,610
Profit before taxation	163,108	201,653	174,903
Taxation	(54,099)	(13,850)	(30,629)
Profit attributable to shareholders	109,009	187,803	144,274
Dividend	–	41,382	–
Earnings per share			
Basic	HK13.2 cents	HK22.7 cents	HK17.4 cents
Diluted	HK12.4 cents	HK22.7 cents	–

ASSETS AND LIABILITIES

	2005	Restated 2004	2003
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets	1,844,843	900,291	766,551
Current assets	313,516	183,357	148,178
Total assets	2,158,359	1,083,648	914,729
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Total equity	747,872	661,795	540,070
LIABILITIES			
Non-current liabilities	1,039,023	209,906	229,814
Current liabilities	371,464	211,947	144,845
Total liabilities	1,410,487	421,853	374,659
Total equity and liabilities	2,158,359	1,083,648	914,729

2. AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements together with the relevant notes to the financial statements as extracted from the annual reports of the Company for the year ended 31 December 2005.

Consolidated Profit and Loss Account
For the year ended 31st December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
Turnover			
Company and subsidiaries	5	13,987	6,612
Share of an associated company	5	34,515	598,094
	5	48,502	604,706
Company and subsidiaries			
Turnover	5	13,987	6,612
Cost of sales		(2,540)	(1,117)
Gross profit		11,447	5,495
Excess of fair values of net assets acquired over cost of acquisition		17,976	–
Fair value gains on investment properties		224,642	66,913
Other gains	6	1,120	2,154
Selling expenses		(10,353)	(1,620)
Administrative expenses		(41,270)	(37,798)
Other operating expenses		(13,312)	–
Operating profit before financing	7	190,250	35,144
Finance costs	8	(33,154)	(3,516)
Share of profit of an associated company		6,012	170,025
Profit before taxation		163,108	201,653
Taxation	10	(54,099)	(13,850)
Profit attributable to shareholders		109,009	187,803
Dividend	12	–	41,382
Earnings per share			
Basic	13	HK13.2 cents	HK22.7 cents
Diluted	13	HK12.4 cents	HK22.7 cents

Consolidated Balance Sheet
As at 31st December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
ASSETS			
Non-current assets			
Investment properties	14	801,826	220,000
Property, plant and equipment	15	219,461	98,206
Leasehold land and land use rights	16	689,500	288,982
Associated company	17	112,646	293,103
Deferred taxation assets	28	21,410	–
		1,844,843	900,291
Current assets			
Properties under development and for sale	18	274,191	142,508
Trade receivables	20	816	104
Prepayments, deposits and other receivables		10,935	22,386
Bank balances and cash	21	27,574	18,359
		313,516	183,357
Total assets		2,158,359	1,083,648
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	82,764	82,764
Reserves	23	665,108	579,031
Total equity		747,872	661,795
LIABILITIES			
Non-current liabilities			
Borrowings	24	643,480	148,517
Amount received from Suifenhe Land Reserve Centre	27	114,642	–
Deferred taxation liabilities	28	280,901	61,389
		1,039,023	209,906
Current liabilities			
Trade payables	29	84,976	4,086
Advanced proceeds received from customers		88,245	–
Other payables and accruals		58,263	16,485
Amount due to ultimate holding company	30	40	99,369
Amounts due to related companies	30	3,220	4,104
Borrowings	24	136,720	87,903
		371,464	211,947
Total liabilities		1,410,487	421,853
Total equity and liabilities		2,158,359	1,083,648
Net current liabilities		(57,948)	(28,590)
Total assets less current liabilities		1,786,895	871,701

Balance Sheet
As at 31st December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
ASSETS			
Non-current assets			
Investment in subsidiaries	19	253,188	–
Current assets			
Amounts due from subsidiaries	19	668,014	486,457
Prepayment, deposits and other receivables		171	21,726
Bank balances and cash		3,165	16,545
		671,350	524,728
Total assets		924,538	524,728
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	82,764	82,764
Reserves	23	457,099	329,223
Total equity		539,863	411,987
LIABILITIES			
Non-current liabilities			
Borrowings	24	372,561	–
Current liabilities			
Other payables and accruals		1,747	3,202
Amount due to ultimate holding company	30	40	99,369
Amounts due to subsidiaries	19	7,107	170
Amounts due to a related company	30	3,220	–
Borrowings	24	–	10,000
		12,114	112,741
Total liabilities		384,675	112,741
Total equity and liabilities		924,538	524,728
Net current assets		659,236	411,987
Total assets less current liabilities		912,424	411,987

Consolidated Statement of Changes in Equity
For the year ended 31st December 2005

	Attributable to equity holders of the Company			
	Share capital	**Other reserves**	**Retained profit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004, as previously reported	82,764	453,643	3,663	540,070
Change in accounting policy *(note 2.1)*	–	(72,706)	56,286	(16,420)
At 1st January 2004, as restated	82,764	380,937	59,949	523,650
Profit for the year, as restated	–	–	187,803	187,803
Total recognised gain	–	–	187,803	187,803
Reduction of share premium	–	(211,808)	211,808	–
Payment of special dividend	–	(49,658)	–	(49,658)
At 31st December 2004, as restated	82,764	119,471	459,560	661,795
At 1st January 2005, as previously reported	82,764	257,462	349,235	689,461
Change in accounting policy *(note 2.1)*	–	(137,991)	110,325	(27,666)
	82,764	119,471	459,560	661,795
Opening adjustment	–	(14,993)	14,993	–
At 1st January 2005, as restated	82,764	104,478	474,553	661,795
Currency translation differences	–	16,501	–	16,501
Profit for the year	–	–	109,009	109,009
Total recognised gains	–	16,501	109,009	125,510
Issuance of convertible note	–	1,949	–	1,949
Payment of final dividend	–	–	(41,382)	(41,382)
At 31st December 2005	82,764	122,928	542,180	747,872

Consolidated Cash Flow Statement
For the year ended 31st December 2005

	Notes	2005 HK$'000	2004 HK$'000
Operating activities			
Net cash used in operations	33	(12,479)	(66,083)
Taxation paid		(420)	(145)
Interest received		330	2
Interest paid		(14,443)	(4,116)
Net cash used in operating activities		(27,012)	(70,342)
Investing activities			
Additions to investment properties		–	(7,790)
Additions to property, plant and equipment		(110,804)	(3,087)
Dividend received from an associated company		188,679	113,208
Net cash from acquisition of a subsidiary	34(c)	19,093	–
Net cash from investing activities		96,968	102,331
Net cash inflow before financing		69,956	31,989
Financing activities			
New bank loan drawn		260,000	34,204
Repayment of bank loans		(48,781)	(11,005)
Repayment of promissory notes		(132,000)	–
(Repayment of)/advance from ultimate holding company		(99,329)	34,725
Repayment of amounts due to related companies		(884)	(47,398)
Dividend paid		(41,382)	(49,658)
Net cash used in financing activities		(62,376)	(39,132)
Increase/(decrease) in cash and cash equivalents		7,580	(7,143)
Cash and cash equivalents at beginning of year		18,359	25,502
Effect of foreign exchange rate changes		1,635	–
Cash and cash equivalents at end of year		27,574	18,359
Analysis of balances of cash and cash equivalents			
Bank balances and cash		27,574	18,359

Notes to the Accounts

1. GENERAL INFORMATION

Shimao International Holdings Limited ("the Company") and its subsidiaries (together the Group) is principally engaged in property development and property investment. The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company is listed on Main Board of the Stock Exchange of Hong Kong Limited.

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, 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 primary asset of Value Ahead is 100% interest in Suifenhe Shimao Development and Construction Company Limited ("Suifenhe Shimao"). The acquisition was approved by independent shareholders at a special general meeting held on 15th September 2005 of the Company. Details of the acquisition are set out in note 34 (c).

On 19th February 2005, the Company also entered into non-competition undertaking ("Undertaking") with certain related companies. 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. Details of the Undertaking are set out in note 34 (b). As a result, the name of the Company was also changed to its present name, which was approved by shareholders at the annual general meeting held on 23rd May 2005.

On 15th April 2006, the Group entered into agreements principally to invest in a large scale property investment and development project in St. Petersburg, Russia for consideration of HK$232,747,000 (the "Baltic Pearl Project"). Upon completion of the agreements, the Group will have a 33.34% interest in the Baltic Pearl Project. The transaction will be financed by a loan from the ultimate holding company of HK$232,747,000. Details of the transactions are set out in note 35.

These consolidated accounts are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts of the Company have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated accounts have been prepared under the historical cost convention, as modified by the financial assets and liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

In preparing these accounts, the directors have taken into account the existing operational status and all information that could reasonably be expected to be available, and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future and to finance the proposed acquisition of Baltic Pearl Project. Under these circumstances, the directors consider that it is proper to prepare the accounts on a going concern basis notwithstanding that at 31st December 2005, the Group's current liabilities exceeded its current assets by HK$57,948,000.

The preparation of accounts in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in note 4.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised HKFRS, Hong Kong Accounting Standards ("HKAS") and interpretations ("HK-Int", "HK (SIC)- Int" and "HKFRS-Int") (collectively the "new HKFRSs"), which are relevant to its operations. The 2004 comparatives are amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HK-Int 3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK(SIC)-Int 12	Consolidation – Special Purpose Entities
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 21	Income Taxes-Recovery of Revalued Non-Depreciable Assets
HKFRS 3	Business Combinations

(a) The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, 36, 38 and HK(SIC)-Int 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of share of after-tax results of associated companies and other disclosures.

- HKASs 2, 7, 8, 10, 16, 21, 23, 27, 28, 31, 33, 36, 38 and HK(SIC)-Int 12 and 15 had no material effect on the Group's policies.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of the following HKFRSs, which include all HKASs and applicable HK-Int, HK(SIC)-Int and HKFRS-Ints, that necessitates material changes in accounting policies or presentations of the accounts are summarised as follows:

(b) 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.

(c) 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.

(d) 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.

(e) The adoption of HK(SIC)-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 taxation liabilities arising from the revaluation of investment properties. Such deferred taxation 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.

(f) The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation", HKAS 39 "Financial Instruments: Recognition and Measurement" and HKAS 39 (Amendment) "Transition and Initial Recognition of Financial Assets and Financial Liabilities" have 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.

(g) The adoption of 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.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective HKFRS. All standards adopted by the Group require retrospective application other than HKAS 39, HKFRS 3 and HK-Int 3 which is applied prospectively on or after 1st January 2005.

The effect of the changes in accounting policies on the Group's assets and shareholders' funds as at 1st January 2004 and 2005, the profit for the year ended 31st December 2004 and 2005 are summarised below:

	HKAS 17	HKAS 40	HK(SIC)-Int 21	HKFRS 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Increase/(decrease) in profit attributable to shareholders					
For the year ended 31st December 2005					
Increase in amortisation of leasehold land and land use rights	4,424	–	–	–	4,424
Increase in fair value gains on investment properties	–	3,557	–	–	3,557
Increase in deferred taxation charge	–	–	(1,174)	–	(1,174)
	4,424	3,557	(1,174)	–	6,807
Increase/(decrease) in earnings per share, basic, HK cents	0.5	0.4	(0.1)	–	0.8
Increase/(decrease) in earnings per share, diluted, HK cents	0.5	0.4	(0.1)	–	0.8
For the year ended 31st December 2004					
Increase in fair value gains on investment properties	–	66,913	–	–	66,913
Increase in deferred taxation charge	–	–	(11,749)	–	(11,749)
	–	66,913	(11,749)	–	55,164
Increase/(decrease) in earnings per share, basic and diluted, HK cents	–	8.1	(1.4)	–	6.7

	HKAS 17	HKAS 40	HK(SIC)-Int 21	HKFRS 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Increase/(decrease) in assets					
As at 31st December 2005					
Leasehold land and land use rights	285,596	–	–	–	285,596
Property, plant and equipment	(285,596)	–	–	–	(285,596)
	–	–	–	–	–
As at 31st December 2004					
Leasehold land and land use rights	288,982	–	–	–	288,982
Property, plant and equipment	(288,982)	–	–	–	(288,982)
	–	–	–	–	–
Increase/(decrease) in shareholders' funds					
As at 31st December 2005					
Capital reserves	–	–	(4,550)	(14,993)	(19,543)
Properties revaluation reserves	–	(133,441)	–	–	(133,441)
Retained profit	–	133,441	(23,116)	14,993	125,318
	–	–	(27,666)	–	(27,666)
As at 31st December 2004					
Capital reserves	–	–	(4,550)	–	(4,550)
Properties revaluation reserves	–	(68,156)	–	–	(68,156)
Retained profit	–	68,156	(11,870)	–	56,286
	–	–	(16,420)	–	(16,420)

Standards, interpretations and amendments to published standards that are not yet effective.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not early adopted, as follows:

- HKAS 19 (Amendment), Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1st January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements.

- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1st January 2006). This amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss.

- HKAS 39 (Amendment), The Fair Value Option (effective from 1st January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category.

- HKAS 39 & HKFRS 4 (Amendments), Financial Instruments: Recognition and Measurement and Insurance Contracts – Guarantee Contracts (effective from 1st January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment of HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1st January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

The Group has already commenced an assessment of the potential impact of these new standards and amendments. Based on the preliminary assessment, the Group believes that the adoption of these HKFRSs will mainly affect disclosure and will not result in substantial changes to the Group's accounting policies.

2.2 Consolidation

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

The consolidated accounts also include the Group's attributable share of post-acquisition results and reserves of its associated company.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 by the Company on the basis of dividend received and receivable.

(ii) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated company's post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated companies.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss accounts during the financial period in which they are incurred.

Depreciation of building, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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

No depreciation is provided for construction in progress.

The residual values of the assets and their useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain and losses on disposal 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.

2.4 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises land held under operating leases and the buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on valuation carried out annually by external valuers. Changes in fair values are recognised in the profit and loss account.

Investment property held for sale without redevelopment is classified within non-current assets held for sales, under HKFRS 5.

2.5 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries, associated companies or jointly controlled entities at the date of acquisition and, in respect of an increase in holding in a subsidiary company, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. Goodwill on acquisition of associated companies or jointly controlled entities is included in investments in associated companies or jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired company, the difference is recognised directly in the consolidated profit and loss account.

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.7 Properties under development and for sale

The cost of acquiring land held under operating leases is amortised on a straight line basis over the lease term. If the property is in the course of development or re-development the amortisation charge is included as part of the costs of the property under development. In all other cases the amortisation charge for the period is recognised in profit and loss account immediately. In all other respects, inventories in respect of property development activities are carried at the lower of cost and net realisable value.

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised costs basis until extinguished on conversion or maturity of the notes. The remaining of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.12 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 consolidated accounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred taxation 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 is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Employee benefits

(i) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement scheme obligations

Employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of state-managed employee pension scheme operated in the PRC which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the schemes. In addition, the Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. All these contributions are based on a certain percentage of the staff's salary and are charged to the profit and loss account as incurred.

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.15 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency. The functional currency of the Group's subsidiaries in the PRC is Renminbi.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.16 Revenue recognition

Sales of completed properties are recognised when the risk and rewards of the property have been passed to the customers. Sales proceeds received are initially recorded as advanced proceeds received from customers under current liabilities.

Rental income under operating leases is recognised over the periods of the respective leases on a straight line basis.

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.

2.17 Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying assets commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2.18 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight-line basis over the period of the lease.

The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

2.20 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk, fair value interest-rate risk and cash flow interest-rate risk.

(a) Market risk - Foreign exchange risk

The principal subsidiaries of the Group operate in Hong Kong and the PRC with almost all of the transactions settled in Hong Kong dollars and Renminbi and therefore did not have significant exposure to foreign exchange risks during the year.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities (including facilities obtained from related companies) and the ability to close out market position.

The Group aims to maintain flexibility in funding by keeping sufficient cash and cash equivalents.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group has not used any derivative instruments to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The fair values of trade and other receivables, cash and cash equivalents, trade and other payables and current borrowings are assumed to approximate their carrying amount due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the accounts are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in both Hong Kong and the PRC. Judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Investment property

The fair values of investment properties are determined by independent valuers on an open market basis. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

5. 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.

	2005	2004
	HK$'000	*HK$'000*
Company and subsidiaries		
Rental income	13,987	6,612
Share of an associated company		
Sales of properties	34,515	598,094
	48,502	604,706

(b) Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 2005	**Property development** *HK$'000*	**Property investment** *HK$'000*	**Total** *HK$'000*
Segment turnover			
Company and subsidiaries	–	13,987	13,987
Share of an associated company	34,515	–	34,515
	34,515	13,987	48,502
Segment results	(18,441)	233,117	214,676
Excess of fair values of net assets acquired over cost of acquisition			17,976
Other gains			1,120
Corporate administrative expenses			(43,522)
Operating profit before financing			190,250
Finance costs			(33,154)
Share of profit of an associated company	6,012	–	6,012
Profit before taxation			163,108
Taxation			(54,099)
Profit attributable to shareholders			109,009

	Property development *HK$'000*	**Property investment** *HK$'000*	**Corporate items** *HK$'000*	**Total** *HK$'000*
Capital expenditure	–	137,790	4,463	142,253
Depreciation	–	–	4,675	4,675
Amortisation of leasehold land and land use rights	4,968	–	3,386	8,354

Year ended 31st December 2004 (restated)	**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
	598,094	6,612	604,706
Segment results	(4,388)	71,410	67,022
Other gains			2,154
Corporate administrative expenses			(34,032)
Operating profit before financing			35,144
Finance costs			(3,516)
Share of profit of an associated company	170,025	–	170,025
Profit before taxation			201,653
Taxation			(13,850)
Profit attributable to shareholders			187,803

	Property development *HK$'000*	**Property investment** *HK$'000*	**Corporate items** *HK$'000*	**Total** *HK$'000*
Capital expenditure	–	12,087	3,687	15,774
Depreciation	–	–	4,234	4,234
Amortisation of leasehold land and land use rights	–	–	1,487	1,487

Balance sheet

As at 31st December 2005	**Property development** *HK$'000*	**Property investment** *HK$'000*	**Total** *HK$'000*
Assets			
Segment assets	676,727	947,380	1,624,107
Associated company			112,646
Unallocated corporate assets			421,606
			2,158,359
Liabilities			
Segment liabilities	251,463	72,471	323,934
Unallocated corporate liabilities			1,086,553
			1,410,487

As at 31st December 2004 (restated)	**Property development**	**Property investment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	142,508	226,563	369,071
Associated company	293,103	–	293,103
Unallocated corporate assets			421,474
			1,083,648
Liabilities			
Segment liabilities	79,992	12,653	92,645
Unallocated corporate liabilities			329,208
			421,853

Geographical segments

The Group's operations are 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:

	2005	Restated **2004**
	HK$'000	*HK$'000*
Segment results		
Hong Kong	(4,743)	(4,388)
Mainland China	219,419	71,410
	214,676	67,022
Excess of fair value of net assets acquired, over cost of acquisition	17,976	–
Other gains	1,120	2,154
Corporate administrative expenses	(43,522)	(34,032)
Operating profit before financing	190,250	35,144
Finance costs	(33,154)	(3,516)
Share of profit of an associated company	6,012	170,025
Profit before taxation	163,108	201,653
Taxation	(54,099)	(13,850)
Profit attributable to shareholders	109,009	187,803

	2005	Restated 2004
	HK$'000	*HK$'000*
Segment assets		
Hong Kong	144,331	142,508
Mainland China	1,479,776	226,563
	1,624,107	369,071
Associated company	112,646	293,103
Unallocated	421,606	421,474
Total assets	2,158,359	1,083,648
Capital expenditure		
Hong Kong	2,899	11,452
Mainland China	139,354	4,322
	142,253	15,774

6. OTHER GAINS

	2005	2004
	HK$'000	*HK$'000*
Interest income from banks	330	2
Others	790	2,152
	1,120	2,154

7. OPERATING PROFIT BEFORE FINANCING

	2005	2004
	HK$'000	*HK$'000*
Operating profit before financing is stated after crediting and charging the following:		
Crediting		
Gross rental income from investment properties	13,987	6,612
Interest income	330	2
Charging		
Amortisation of leasehold land and land use rights	12,863	1,487
Less: Amount capitalised	(4,509)	–
	8,354	1,487
Depreciation	4,675	4,234
Outgoings in respect of investment properties	1,429	785
Auditors' remuneration	995	580

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

	2005	2004
	HK$'000	*HK$'000*
The future minimum rental income receivable under non-cancellable leases are as follows:		
Within one year	6,690	8,085
Between two and five years	15,635	23,882
Beyond five years	14,812	28,827
	37,137	60,794

8. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank loans	10,996	3,514
Promissory notes	16,434	602
Convertible note	5,724	–
	33,154	4,116
Amount capitalised in properties under development	–	(600)
	33,154	3,516

9. EMPLOYEE BENEFIT EXPENSE

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	16,626	15,732
Pension costs – defined contribution plans *(Note a)*	260	233
	16,886	15,965

(a) Pensions – defined contribution plans

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 PRC.

The assets of all retirement schemes are held separately from those of the Group in independently administered funds.

(b) Directors' and management's emoluments

(i) The remuneration of each of the directors of the Company are set out below:

31st December 2005

Name of Executive directors	Fees	Salary	Discretionary bonuses	Contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hui Wing Mau	350	–	150	12	512
Chung Shui Ming, Timpson *(resigned on 1st October 2005)*	375	2,477	–	9	2,861
Hui Mei Mei, Carol	1,680	–	560	12	2,252
Hui Sai Tan, Jason	1,095	–	560	12	1,667
Tung Chi Shing *(appointed on 19th February 2005)*	209	456	400	11	1,076
Chan Loo Shya *(appointed on 19th February 2005)*	203	299	215	11	728
	3,912	3,232	1,885	67	9, 096

Name of Independent non-executive director	Fees	Salary	Discretionary bonuses	Contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Liu Hing Hung	120	–	–	–	120
Lee Chack Fan	120	–	–	–	120
Zhu Wenhui	120	–	–	–	120
Lu Hong Bing *(resigned on 19th February 2005)*	8	–	–	–	8
Yu Hon To, David *(resigned on 19th February 2005)*	25	–	–	–	25
	393	–	–	–	393

31st December 2004

Name of Executive directors	Fees	Salary	Discretionary bonuses	Contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hui Wing Mau	1,800	–	150	12	1,962
Chung Shui Ming, Timpson	333	1,651	498	8	2,490
Hui Mei Mei, Carol	1,440	–	480	12	1,932
Hui Sai Tan, Jason	854	–	480	12	1,346
Lee Yuk Ying *(resigned on 1st June 2004)*	628	–	240	5	873
Yao Li *(resigned on 19th February 2005)*	320	–	–	–	320
Tang Ping Fai *(resigned on 19th February 2005)*	400	–	–	–	400
Ip Wai Shing *(resigned on 19th February 2005)*	440	–	–	–	440
	6,215	1,651	1,848	49	9,763

Name of Independent non-executive director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Contribution to pension scheme HK$'000	Total HK$'000
Liu Hing Hung	60	–	–	–	60
Lee Chack Fan *(appointed on 1st June 2004)*	70	–	–	–	70
Zhu Wenhui *(appointed on 15th December 2004)*	5	–	–	–	5
Lu Hong Bing	60	–	–	–	60
Yu Hon To, David *(appointed on 1st June 2004)*	105	–	–	–	105
	300	–	–	–	300

None of the Directors has waived the right to receive the emoluments (2004: none).

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: nil) individual, during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries and other emoluments	799	–
Bonus	210	–
Contribution to pension scheme	12	–
	1,021	–

(iii) Key management compensation

	2005 HK$'000	2004 HK$'000
Directors' fee	3,912	6,215
Basic salaries and other emoluments	6,126	4,249
Contribution to pension scheme	79	61
	10,117	10,525

10. TAXATION

	2005	2004
	HK$'000	*HK$'000*
Current taxation		
Income tax in the PRC	420	145
Deferred taxation		
Relating to the origination and reversal of temporary differences *(note 28)*	53,679	13,705
	54,099	13,850

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 (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 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:

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation	163,108	201,653
Less: share of profit of an associated company	(6,012)	(170,025)
	157,096	31,628
Tax calculated at applicable tax rates	62,336	6,592
Income not subject to tax	(3,146)	–
Tax losses not recognised	15,754	7,291
Recognition of previously unrecognised tax losses	(21,410)	–
Utilisation of previously unrecognised tax losses	(1,023)	(1,014)
Other items	1,588	981
Taxation charge	54,099	13,850

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$167,309,000 (2004: HK$120,370,000).

12. DIVIDEND

	2005	2004
	HK$'000	*HK$'000*
Paid, final, HK$0.05 per ordinary share	–	41,382

The Board of directors do not recommend the payment of a dividend in respect of 2005.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$109,009,000 (2004: HK$187,803,000) and weighted average number of 827,639,886 (2004: 827,639,886) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31st December 2005 is based on HK$114,733,000, representating the profit attributable to shareholders of HK$109,009,000 plus interest on convertible note (note 8) saving of HK$5,724,000 and, 924,037,654 shares being the weighted average number of 827,639,886 shares in issue during the year plus 96,397,768 shares deemed to be in issue assuming the convertible note had been converted upon issuance on 24th June 2005.

The basic and diluted earnings per shares were the same for 2004 since there were no potential dilutive shares.

14. INVESTMENT PROPERTIES

Group

	2005	**2004**
	HK$'000	*HK$'000*
Beginning of year	220,000	474,000
Additions	–	12,087
Transfer from leasehold land and land use rights *(note 16)*	233,516	–
Transfer from construction in progress *(note 15)*	119,437	–
Exchange difference	4,231	–
Fair value gains	224,642	66,913
Reclassification *(notes 15 and 16)*	–	(333,000)
End of the year	801,826	220,000

Notes:

At 31st December 2005, the Group's investment properties were revalued on an open market value basis by Savills Valuation and Professional Services Limited, an independent professional valuer and were held under leases of between 10 to 50 years in the Mainland China.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Construction in progress	Leasehold improvements	Furniture, office equipment and motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004					
Cost	11,633	–	4,855	1,847	18,335
Accumulated depreciation	(237)	–	(890)	(412)	(1,539)
Net book amount	11,396	–	3,965	1,435	16,796
Year ended 31st December 2004					
Opening net book amount	11,396	–	3,965	1,435	16,796
Additions	–	–	3,092	595	3,687
Write off	–	–	(43)	–	(43)
Reclassification *(note 14)*	82,000	–	–	–	82,000
Depreciation	(2,479)	–	(1,270)	(485)	(4,234)
Closing net book amount	90,917	–	5,744	1,545	98,206
At 31st December 2004					
Cost	93,633	–	7,894	2,442	103,969
Accumulated depreciation	(2,716)	–	(2,150)	(897)	(5,763)
Net book amount	90,917	–	5,744	1,545	98,206
Year ended 31st December 2005					
Opening net book amount	90,917	–	5,744	1,545	98,206
Exchange differences	–	1,847	–	34	1,881
Additions	–	141,314	3,601	862	145,777
Acquisition of a subsidiary	–	96,030	–	1,679	97,709
Transfer upon completion *(note 14)*	–	(119,437)	–	–	(119,437)
Depreciation	(1,870)	–	(2,094)	(711)	(4,675)
Closing net book amount	89,047	119,754	7,251	3,409	219,461
At 31st December 2005					
Cost	93,633	119,754	11,495	5,279	230,161
Accumulated depreciation	(4,586)	–	(4,244)	(1,870)	(10,700)
Net book amount	89,047	119,754	7,251	3,409	219,461

At 31st December 2005, all (2004: all) buildings of the Group were pledged as collateral for the Group's borrowings (note 24).

Depreciation of HK$4,675,000 (2004: HK$4,234,000) was included in administrative expenses in the profit and loss account.

16. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Opening net book amount	288,982	39,469
Acquisition of subsidiary	632,707	–
Reclassification *(note 14)*	–	251,000
Amortisation	(10,841)	(1,487)
Exchange difference	12,168	–
Transfer to investment properties *(note 14)*	(233,516)	–
Closing net book amount	689,500	288,982

	2005	**2004**
	HK$'000	*HK$'000*
In Hong Kong held on lease of over 50 years	285,596	288,982
Mainland China, held on lease of between 10 to 50 years	340,494	–
	626,090	288,982

At 31st December 2005, leasehold land and land use rights of HK$285,596,000 (2004: HK$288,982,000) were pledged as collateral for the Group's borrowings (note 24).

The balance also includes amount paid to Municipal Government of Suifenhe in respect of the Second Phase Land (note 34 (b)) of HK$63,410,000. Upon acquisition of land use rights, this amount will be reclassified to the land costs of the respective property development projects.

Amortisation of HK$3,525,000 (2004: Nil) was capitalised in the property, plant and equipment and HK$3,386,000 (2004: HK$1,487,000) and HK$3,930,000 (2004: Nil) were included in "administrative expenses" and "other operating expenses" respectively in the profit and loss account.

17. ASSOCIATED COMPANY

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Share of net assets		
Beginning of year	293,103	236,286
Share of results		
– Profit before taxation	7,692	200,030
– Taxation	(1,680)	(30,005)
	299,115	406,311
Exchange difference	2,210	–
Dividend received	(188,679)	(113,208)
End of year	112,646	293,103

At 31st December 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. It is established in the Pudong New Area of the PRC and is required to pay income tax at a preferential rate of 15% (2004: 15%).

The Group's share of assets, liabilities and results of the associated company is summarised as follows:

(a) Results

	2005	2004
	HK$'000	*HK$'000*
Income	34,515	598,094
Expenses, including taxation	28,503	428,069

(b) Net assets

	2005	2004
	HK$'000	*HK$'000*
Non-current assets	3,950	1,597
Current assets	170,743	494,988
Current liabilities	(62,047)	(203,482)
	112,646	293,103

(c) 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 2005 which would otherwise have amounted to approximately HK$193.9 million (2004: HK$184.2 million).

18. PROPERTIES UNDER DEVELOPMENT AND FOR SALE

	2005	2004
	HK$'000	*HK$'000*
Group		
Properties under development for sale, in Mainland China, held on lease of between 10 to 50 years	129,860	–
Completed properties held for sale, in Hong Kong held on leases of over 50 years	144,331	142,508
	274,191	142,508
Representing:		
Leasehold land and land use rights	147,537	72,776
Development costs	126,654	69,732
	274,191	142,508

Amortisation of leasehold land and land use rights in respect of properties under development for sale of HK$984,000 (2004: Nil) was capitalised as part of development costs, whereas amortisation of leasehold land and land use rights in respect of completed properties held for sale of HK$1,038,000 (2004: Nil) was included in "other operating expenses" in the profit and loss account.

At 31st December 2004 and 2005, all of the Group's completed properties held for sale were pledged as collateral for the Group's borrowings (note 24).

19. SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	253,188	–
Amounts due from subsidiaries, net of provision	668,014	486,457
Amounts due to subsidiaries	(7,107)	(170)

Details of the principal subsidiaries at 31st December 2005 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
Value Ahead Investments Limited	British Virgin Islands ("BVI")	US$1	100%	Investment holding
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 (a))*	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%	Property holding
Suifenhe Shimao Development & Construction Company Limited *(note (b))*	PRC	US$29,800,000	100%	Property investment and development

Note:

(a) Established as a wholly-owned foreign enterprise for a period of 20 years commencing from 2nd December 1992.

(b) Established as a wholly-owned foreign enterprise for a period of 40 years commencing from 13th April 2004.

20. 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	
	2005	**2004**
	HK$'000	*HK$'000*
Current	316	29
1 to 60 days	404	–
61 to 90 days	96	–
Over 90 days	–	75
	816	104

The carrying amounts approximate their fair value and are mainly denominated in Renminbi.

21. BANK BALANCE AND CASH

The carrying amounts of the Group's bank balance and cash are denominated in the following currencies:

	2005	**2004**
	HK$'000	*HK$'000*
Hong Kong Dollars	8,445	18,072
Renminbi	18,207	243
Other currencies	922	44
	27,574	18,359

22. SHARE CAPITAL

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

23. RESERVES

Group	Contributed surplus HK$'000	Capital reserve HK$'000	Properties revaluation reserve HK$'000	Foreign exchange translation reserve HK$'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	133,441	–	–	349,235	606,697
Change in accounting policy							
– HKAS 40 *(note 2.1(d))*	–	–	(133,441)	–	–	133,441	–
– HK(SIC)-Int 21 *(note 2.1(e))*	–	(4,550)	–	–	–	(23,116)	(27,666)
	104,478	14,993	–	–	–	459,560	579,031
Opening adjustment							
– HKFRS 3 *(note 2.1(c))*	–	(14,993)	–	–	–	14,993	–
As restated	104,478	–	–	–	–	474,553	579,031
Currency translation adjustments							
– Group	–	–	–	14,291	–	–	14,291
– Associated company	–	–	–	2,210	–	–	2,210
Issuance of convertible note	–	–	–	–	1,949	–	1,949
Payment of final dividend	–	–	–	–	–	(41,382)	(41,382)
Profit for the year	–	–	–	–	–	109,009	109,009
At 31st December 2005	104,478	–	–	16,501	1,949	542,180	665,108
Retained by							
Company and subsidiaries	104,478	–	–	14,291	1,949	501,994	622,712
An associated company	–	–	–	2,210	–	40,186	42,396
At 31st December 2005	104,478	–	–	16,501	1,949	542,180	665,108

Group	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Properties revaluation reserve HK$'000	Retained profit HK$'000	Total HK$'000
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 2.1(d))*	–	–	–	(68,156)	68,156	–
– HK(SIC)-Int 21 *(note 2.1(e))*	–	–	(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 year	–	–	–	–	187,803	187,803
At 31st December 2004	–	104,478	14,993	–	459,560	579,031

Company	Share premium	Contributed surplus	Convertible note-equity component	Retained profit/ (accumulated loss)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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
Issurance of convertible note	–	–	1,949	–	1,949
Profit for the year	–	–	–	167,309	167,309
Payment of final dividend	–	–	–	(41,382)	(41,382)
At 31st December 2005	–	208,853	1,949	246,297	457,099

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.

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 2005 amounted to HK$457,099,000.

24. BORROWINGS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current				
Long-term bank loans, secured	270,919	148,517	–	–
Promissory notes *(note 25)*	136,427	–	136,427	–
Convertible note *(note 26)*	236,134	–	236,134	–
	643,480	148,517	372,561	–
Current				
Current portion of long-term bank loans, secured	16,720	13,133	–	–
Short-term bank loan, secured	120,000	34,770	–	–
Promissory note *(note 25)*	–	40,000	–	10,000
	136,720	87,903	–	10,000
Total borrowings	780,200	236,420	372,561	10,000

All of the bank borrowings are floating rate instruments while the other borrowings are fixed rate instruments.

The maturity of borrowings is as follows:

	Group				Company	
	Long-term bank loan	**Short-term bank loan**	**Convertible note**	**Promissory note**	**Convertible note**	**Promissory note**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31st December 2005						
Within one year	16,720	120,000	–	–	–	–
Between one and two years	136,942	–	236,134	–	236,134	–
Between two and five years	51,128	–	–	136,427	–	136,427
After five years	82,849	–	–	–	–	–
	287,639	120,000	236,134	136,427	236,134	136,427
Wholly repayable within five years	139,123	120,000	236,134	136,427	236,134	136,427
Not wholly repayable within five years	148,516	–	–	–	–	–
	287,639	120,000	236,134	136,427	236,134	136,427
As at 31st December 2004						
Within one year	13,133	34,770	–	40,000	–	10,000
Between one and two years	13,133	–	–	–	–	–
Between two and five years	39,400	–	–	–	–	–
After five years	95,984	–	–	–	–	–
	161,650	34,770	–	40,000	–	10,000
Wholly repayable within five years	–	34,770	–	40,000	–	10,000
Not wholly repayable within five years	161,650	–	–	–	–	–
	161,650	34,770	–	40,000	–	10,000

The effective interest rates at the balance sheet dates were as follows:

	2005	**2004**
Long-term bank loans, secured	5.65%	1.64%
Short-term bank loans, secured	5.53%	1.53%
Promissory notes *(note 25)*	5.76%	1.50%
Convertible note *(note 26)*	4.94%	–

The carrying amounts of the Group's borrowings are mainly denominated in Hong Kong dollars.

25. PROMISSORY NOTES

	Group		Company	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Issue to:				
Related companies	136,427	30,000	136,427	–
Ultimate holding company	–	10,000	–	10,000
	136,427	40,000	136,427	10,000

The Company issued promissory note with principal amount of HK$246,220,000 on 24th June 2005 to Dynamic Keen in respect of the acquisition of Value Ahead (note 34 (c)). It is unsecured, bears interest at 2.0% per annum and wholly repayable on 24th June 2009. During the year, HK$92,000,000 was repaid and the outstanding balance at 31st December 2005 is of principal amount of HK$154,220,000. The outstanding promissory notes at 31st December 2004 were fully repaid during the year.

The fair value of the promissory notes at 31st December 2005 amounted to HK$133,820,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 6.37%.

Interest expense on the note is calculated using the effective interest method by applying the effective interest rate of 5.76%.

26. CONVERTIBLE NOTE

The Company issued redeemable convertible note in the aggregate amount of HK$250,000,000 on 24th June 2005 to Dynamic Keen in respect of the acquisition of Value Ahead (note 34 (c)). The note bears interest at 1% per annum and matures on 24th June 2007 at their nominal value of HK$250,000,000. The note can be converted into shares at the holder's option at a conversion price of HK$1.35 per share after 24th June 2006, or redeemable at the option of the Company.

The fair value of the convertible note at the date of issuance was based on a valuation performed by Sallmanns (Far East) Limited, an independent professional valuer and the liability component and the equity conversion component at initial recognition were accordingly determined. The equity component of the note has been included in reserves (note 23).

The fair value of the liability component of the convertible note at 31st December 2005 amounted to HK$234,318,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 5.84%.

Interest expense on the note is calculated using the effective interest method by applying the effective interest rate of 4.94% to the liability component.

27. AMOUNT RECEIVED FROM SUIFENHE LAND RESERVE CENTRE

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. Aggregate balance of HK$116,807,000 was received in advance from Suifenhe Land Reserve Centre ("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$127,686,000. This estimation will be revised on a timely basis as more construction contracts are entered into and the development progresses. Up to 31st December 2005, the construction costs incurred amounted to approximately HK$2,143,000.

28. DEFERRED TAXATION

	2005	**2004**
	HK$'000	*HK$'000*
Deferred taxation assets	21,410	–
Deferred taxation liabilities	(280,901)	(61,389)
	(259,491)	(61,389)

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation liabilities and when the deferred taxation relates to the same authority. The above assets/(liabilities) shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts and include the following:

	2005	**2004**
	HK$'000	*HK$'000*
Deferred taxation assets to be recovered after more than twelve months	–	–
Deferred taxation liabilities to be recovered after more than twelve months	280,901	61,389

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 movements during the year are as follows:

	Assets/(liabilities)			
	Tax losses	**Accelerated depreciation allowances**	**Revaluation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December 2003	2,610	(4,695)	(45,599)	(47,684)
Transfer to profit and loss account *(note 10)*	(1,696)	(260)	(11,749)	(13,705)
At 31st December 2004	914	(4,955)	(57,348)	(61,389)
Exchange difference	17	(94)	(2,723)	(2,800)
Acquisition of subsidiary	–	–	(141,623)	(141,623)
Transfer to profit and loss account *(note 10)*	22,676	(3,096)	(73,259)	(53,679)
At 31st December 2005	23,607	(8,145)	(274,953)	(259,491)

Deferred taxation assets of HK$14,723,000 (2004: HK$16,951,000) arising from unused tax losses of HK$58,085,000 (2004: HK$96,861,000) have not been recognised in the accounts. Unused tax losses have no expiry date, except balance of HK$29,428,000 will be expired after five years starting from the first profitable year of the operation of a wholly-owned subsidiary operated in the PRC.

29. 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 2005, most of the Group's trade payables were current within their respective terms of credit. The carrying amount approximate their fair value and are mainly denominated in Renminbi.

30. AMOUNT DUE TO ULTIMATE HOLDING COMPANY AND RELATED COMPANIES

The balances are unsecured, interest free and have no fixed repayment terms. The carrying amounts approximate their fair value.

31. COMMITMENT

At 31st December 2005, the Group had the following capital commitments in respect of property, plant and equipment:

	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for	186,682	1,926

32. CONTINGENT LIABILITIES

The Company has given guarantees in favour of bankers to the extent of HK$407,639,000 (2004: HK$232,000,000) in respect of banking facilities granted to subsidiaries of the Company. The banking facilities of HK$380,222,000 are also guaranteed by a director of the Company. At 31st December 2005, the banking facilities utilised by the subsidiaries amounted to approximately HK$407,639,000 (2004: HK$195,854,000).

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash used in operations

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation	163,108	201,653
Interest income	(330)	(2)
Finance costs	33,154	3,516
Amortisation of leasehold land and land use rights	8,354	1,487
Depreciation	4,675	4,234
Write off of property, plant and equipment	–	43
Excess of fair values of net assets acquired over cost of acquisition	(17,976)	–
Fair value gains on investment properties	(224,642)	(66,913)
Share of profit of an associated company	(6,012)	(170,025)
Operating loss before working capital changes	(39,669)	(26,007)
Increase in properties under development and for sale	(30,140)	(43,716)
Decrease/(increase) in prepayments, deposits and other receivables	16,274	(1,387)
Increase in trade receivables	(712)	(2,931)
(Decrease)/increase in trade payables	(51)	2,011
Increase in advanced proceeds received from customers	43,021	–
(Decrease)/increase in other payables and accruals	(1,202)	5,947
Net cash used in operations	(12,479)	(66,083)

34. RELATED PARTY TRANSACTIONS

Related companies as referred to in notes 25, 26 and 30 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:

	Note	2005 HK$'000	2004 HK$'000
Interest on promissory note to ultimate holding company *(note 25)*		57	150
Interest on promissory notes to related companies *(note 25)*		16,377	452
Interest on convertible note to a related company *(note 26)*		5,724	–
Service fee income from a related company	*(a)*	–	2,100

Notes:

(a) 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.

(b) On 19th February 2005, the Company entered into a non-competition undertaking with Shimao Property Holdings Limited ("SPHL"), 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, so long as Overseas Investment Group International Limited, the controlling shareholder of the Company, directly or indirectly (through its subsidiaries) holds 30% or more of the issued share capital of the Company and SPHL (or controls the exercise of the voting rights in respect thereof), the Company undertakes to SPHL that it (1) shall not, (2) shall procure that its subsidiaries shall not, and (3) shall use its best endeavours to procure that its associated companies shall not, engage in any property business in mainland PRC (excluding Taiwan, Hong Kong and Macau), except that the Company may continue to hold its interest in the Dongfanghong Shopping Centre, the three retail units in Epoch Centre Phase II and the 50% interest in Shimao Lakeside Garden (the "Existing PRC Interests"). All the parties to the Non-competition Undertaking further agreed that Suifenhe Shimao development project shall not constitute property business in mainland PRC. The transaction was approved by independent shareholders at a special general meeting held on 15 September 2005 of the Company.

(c) On 19th February 2005, the Company entered into a sale and purchase agreement with Dynamic Keen Developments Limited, 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, 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 complex 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 Co., Ltd ("Shimao Jianshe"), a company beneficially and wholly owned by Mr. Hui, Chairman of the Company, 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 Pogranichy-Suifenhe Intertrading Economic Zone (the "Intertrading Zone") on the Chinese border of the Municipality of Suifenhe for a consideration of RMB125,000,000. 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 RMB125,000,000, which was apportioned as to RMB59,055,000 to the First Phase Land and as to RMB65,945,000 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 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 RMB133,926,000.

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 is held for future development. Construction of Shimao International Commercial and Exhibition Centre (Phase I) was partially completed in December 2005 whilst the five-star hotel is in progress. Both are scheduled to be opened in mid 2006. Based on the latest project plan, the construction of the remaining portion of the area will commence in mid 2007 and the directors estimate the construction costs to be approximately HK$572 million.

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 Russia, 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 Cooperative 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 still in a preliminary stage, no approval has been obtained from the relevant governmental authority of Russia. Suifenhe Shimao has yet to discuss and conclude the details of the Russian joint venture companies with the Russian Party.

Financial effects

The Consideration for the Acquisition was HK$496,220,000, satisfied by way of issuance of convertible note and promissory note with a nominal value of HK$250,000,000 and HK$246,220,000 respectively.

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

Particulars of the assets and liabilities acquired are as follows:

	Note	Fair value HK$'000	Carrying amount HK$'000
Land use rights	16	632,707	248,121
Property, plant and equipment	15	97,709	97,709
Properties under development for sale		100,645	27,777
Prepayments, deposits and other receivables		4,823	4,823
Bank balances and cash		19,093	19,093
Trade payables		(46,974)	(46,974)
Advanced proceeds received from customers		(44,371)	(44,371)
Other payables and accruals		(11,360)	(11,360)
Amount received from Suifenhe Land Reserve Centre		(114,065)	(114,065)
Deferred income and other taxation liabilities		(172,432)	–
Net assets acquired		465,775	180,753
Satisfied by consideration at fair value			
Promissory note	25	214,190	
Convertible note	26		
– Equity component		1,949	
– Liability component		231,660	
		447,799	
Excess of fair values of net assets acquired over cost of acquisition		17,976	

Suifenhe Shimao contributed revenue and net profit of HK$10,000 and HK$129,088,000 (include fair value gain on investment properties) respectively from the date of acquisition to 31st December 2005. If the acquisition had occurred on 1st January 2005, the revenue and net profit of Suifenhe Shimao would have been HK$10,000 and HK$118,699,000 (include fair value gain on investment properties) respectively.

(d) In April 2006, the Group obtained an unsecured revolving facility of HK$100 million from the ultimate holding company for a period of 18 months.

35. SUBSEQUENT EVENT

On 15th April 2006, the Group entered into agreements to invest in a large scale property investment and development project in St. Petersburg, Russia for consideration of HK$232,747,000 (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 square meters. Upon completion of the agreement, the Group will have a 33.34% interest in the Baltic Pearl Project. The transaction will be financed by a loan from the ultimate holding company of HK$232,747,000 for a term of four years at interest rate of 2% per annum. The Group has an option to make repayments of the loan or to extend the repayment date for a further two years.

36. 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.

37. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of directors on 24th April 2006.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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

For illustrative purpose only, set out below is the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2005 to show the effect of the acquisition of 15.79% interest of Shanghai Overseas United Investment Company Limited ("OU") and investment in 51% of Burla Group Limited ("Burla"), by Top Ahead International Limited ("Top Ahead"), a wholly-owned subsidiary of Shimao International Holdings Limited (the "Company") (collectively the "Investments") on the assets and liabilities of the Group as if it had taken place on 31 December 2005. The Investments result in acquisition of an aggregate interest of 33.34% of ZAO Baltyiskaya Zhemchuzhina (the "Project Company"). The Group referred to hereinafter include the Company and its subsidiaries and the Enlarged Group referred to hereinafter include the Group and Burla.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2005 has been prepared using the accounting policies materially consistent with that of the Group and based on the consolidated balance sheet of the Group as at 31 December 2005 as per the published annual accounts included in the Financial Information set out in Appendix II 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 of the Investments actually been completed as at 31 December 2005.

(In HK$'000)	Audited As at 31 December 2005 The Group	Pro forma adjustments OU Note 2 (a)	Burla Note 2 (b)	Project Company Note 2 (c)	Project Company Note 2 (d)	Sub-total Note 2	Note 3	Unaudited pro forma balance of the Enlarged Group
ASSETS								
Non-current assets								
Investment properties	801,826					–	–	801,826
Property, plant and equipment	219,461					–	–	219,461
Leasehold land and land use rights	689,500					–	–	689,500
Associated company	112,646	*(i)* 140,374	*(i)* 101,310	*(i)* (16,220)	*(i)* 452,856	678,220	–	790,966
Deferred taxation assets	21,410					–	–	21,410
	1,844,843							2,523,163
Current assets								
Properties under development and for sale	274,191					–	–	274,191
Trade receivables	816					–	–	816
Prepayments, deposits and other receivables	10,935					–	–	10,935
Bank balances and cash	27,574	*(ii)* (173,077)	*(ii)* (47,970)	–	–	(221,047)	232,747	39,274
	313,516							325,216
Total assets	2,158,359							2,848,379
EQUITY								
Capital and reserves								
Share capital	82,764					–	–	82,764
Reserves	665,108	(32,703)	444	(10,073)	281,237	238,905	65,747	969,760
	747,872							1,052,524
Minority interests	–	–	*(iii)* 52,896	*(ii)* (6,147)	*(ii)* 171,619	218,368	–	218,368
Total equity	747,872							1,270,892
LIABILITIES								
Non-current liabilities								
Borrowings	643,480					–	–	643,480
Amount due to ultimate holding company	–					–	167,000	167,000
Amount received from Suifenhe Land Reserve Centre	114,642					–	–	114,642
Deferred taxation liabilities	280,901					–	–	280,901
	1,039,023							1,206,023
Current liabilities								
Trade payables	84,976					–	–	84,976
Advanced proceeds received from customers	88,245					–	–	88,245
Other payables and accruals	58,263					–	–	58,263
Amount due to ultimate holding company	40					–	–	40
Amounts due to related companies	3,220					–	–	3,220
Borrowings	136,720					–	–	136,720
	371,464							371,464
Total liabilities	1,410,487							1,577,487
Total equity and liabilities	2,158,359							2,848,379
Net current liabilities	(57,948)							(46,248)
Total assets less current liabilities	1,786,895							2,476,915

Pro forma adjustments

1) On 15 April 2006, the Company entered into the following agreements in respect of the Investments:

   (i) Pursuant to the Subscription Agreement, Top Ahead and Shanghai Jiangong will subscribe for and OU will allot and issue 150,000,000 shares of RMB1.00 each in the share capital of OU ("OU Shares") of approximately HK$144,231,000 (representing approximately 15.79% of the issued share capital of OU as enlarged by the subscription under the Subscription Agreement) and 50,000,000 OU Shares (representing approximately 5.2632% of the issued share capital of OU as enlarged by the subscription under the Subscription Agreement) respectively at an issue price of RMB1.00 per OU Share to increase the registered capital of OU from RMB750,000,000 to RMB950,000,000;

   (ii) Pursuant to the Premium Agreement, Top Ahead and Shanghai Jiangong agreed to pay to the Existing OU Shareholders RMB30,000,000 (approximately HK$28,846,000) and RMB10,000,000 respectively, being 20% of the respective subscription amounts under the Subscription Agreement, as premium;

   (iii) Pursuant to the Joint Venture Agreement, Top Ahead will acquire 1 share of US$1 each in the share capital of Burla ("Burla Share") from the nominee and a total of 14,999,999 Burla Shares will be allotted and issued to Top Ahead, Shanghai Shiye and OU, as to 7,649,999 Burla Shares, 3,750,000 Burla Shares and 3,600,000 Burla Shares respectively, for cash at par, for the purpose of subscription of 45% of the issued share capital of the Project Company at a consideration of US$13,500,000. The total issued share capital of the Project Company will then be US$30,000,000 after completion of the subscriptions by OU and Burla. Accordingly, Top Ahead will hold 7,650,000 Burla Shares representing 51% of the issued share capital of Burla upon completion of the Joint Venture Agreement for a cash consideration of US$7,650,000 (approximately HK$59,670,000); and

(iv) Pursuant to the Deed, Shanghai Shiye undertakes, inter alia, that it will buy back approximately 15.79% of the issued share capital of OU and 51% of the issued share capital of Burla from Top Ahead if Burla is unable to acquire 45% shareholding of the Project Company at a consideration of approximately US$13,500,000.

Completion of the Subscription Agreement and Joint Venture Agreement is subject to the conditions set out therein.

The total consideration of the Investments, being 15.79% interest in OU and 51% interest in Burla of HK$232,747,000, representing subscription funds of OU and Burla of RMB150,000,000 (approximately HK$144,231,000) and US$7,650,000 (approximately HK$59,670,000) as set out in item (i) and (iii) above respectively together with premium of RMB30,000,000 (approximately HK$28,846,000) as set out in item (ii) above, will be financed by loan to be advanced by the Controlling Shareholder. Pursuant to the loan agreement dated 15 April 2006, the Controlling Shareholder agreed to advance a loan in the principal amount of HK$232,747,000 to the Company for a term of four years at interest rate of 2% per annum with an option by the Company to extend the repayment for 2 years after the maturity date ("Loan from the Controlling Shareholder").

2) The Group's share of the assets and liabilities of OU and the Project Company in relation to the Investments will be accounted for in the consolidated accounts of the Enlarged Group at their fair values under the purchase method of accounting.

Pursuant to the Articles of OU, the board of directors of OU shall consist of 10 directors and the power of directors includes (1) to decide operational plans and investment decisions; (2) to formulate plans for distribution of profits; (3) to determine the mortgage, lease and transfer of material assets; (4) to formulate plans for the merger, division and dissolution; (5) to establish internal management structure; (6) to formulate basic management system. To the best knowledge of the Company, Top Ahead shall appoint two directors to the board of OU and one of these directors on board of OU will be the Chief Executive Officer of the Project Company to provide technical advice and managerial expertise to OU and the Project Company. In addition, pursuant to the Joint Venture Agreement, the board of directors of Burla shall consist of five directors, whereas Top Ahead shall appoint three directors to the board of directors of Burla.

Based on the above, the directors of the Company are of the view that, subject to the completion of the acquisition of the Investments, the Company will have significant influence over OU and the Project Company and have control over Burla. As such, investments in OU and the Project Company will be accounted for as associated companies whereas investment in Burla will be accounted for as a subsidiary. Please refer to the Shareholding Structure section of the Letter from the Board on P.20 for the relevant shareholding structure.

OU

(a) The pro forma adjustment reflects (i) the Enlarged Group's 15.79% interest in OU of HK$140,374,000 after taking into account the subscription by Top Ahead and Shanghai Jiangong as set out in note 1(i) above and (ii) payment of subscription fund to OU of RMB150,000,000 and premium of RMB30,000,000 to the Existing OU Shareholders as detailed in note 1(i) and (ii) above of approximately HK$173,077,000.

Burla

(b) The pro forma adjustment reflects (i) the Enlarged Group's 43.29% share in the share capital of the Project Company of US$30,000,000 (approximately HK$234,000,000), amounted to HK$101,310,000, (ii) payment of US$7,650,000 (approximately of HK$59,670,000) subscription fund to Burla by the Group as detailed in note 1(iii), netting off the remaining cash retained by Burla of US$1,500,000 (approximately HK$11,700,000) after taking into account the cash received in respect of allotment of shares of Burla in accordance with the Joint Venture Agreement of US$15,000,000 (approximately HK$117,000,000) and the subscription of 45% of the issued share capital of the Project Company by Burla of US$13,500,000 (approximately HK$105,300,000) and (iii) the minority interests' 45.21% share of the share capital of Burla.

The Project Company

(c) The pro forma adjustment reflects (i) the Enlarged Group's 53.68% share of the pre-acquisition reserve of the Project Company of HK$30,214,000 and (ii) the 20.34% share of the pre-acquisition reserve of the Project Company by minority interests of Burla.

(d) In respect of accounting for the Investments at their fair value under purchase method of accounting, the Company's directors have considered a valuation performed by Sallmanns (Far East) Limited, independent professional valuers ("Sallmanns"), on the property interests of the Project Company as at 31 March 2006 as set out in Appendix IV, and of the view that as at 31 December 2005, the fair value of the property interests of the Project Company, net of corresponding deferred taxation liabilities, would be higher than their corresponding net book value as at 31 December 2005 by approximately HK$843,555,000 ("Net Revaluation Surplus"). The Net Revaluation Surplus represents (i) the increase in value of the property interests of the Project Company as compared to their corresponding net book value as at 31 December 2005, of approximately HK$1,109,941,000, and (ii) the related additional deferred tax liabilities of HK$266,386,000 arising from such increase in value of the property interests, as if the acquisition of the Investments had taken place on 31 December 2005.

The pro forma adjustments reflect (i) the Enlarged Group's 53.68% share of the Net Revaluation Surplus of the Project Company and (ii) the 20.34% share of the Net Revaluation Surplus of the Project Company by minority interests of Burla.

The combined effects of the Investments as detailed in notes 2(a) to (d) above includes an excess of the fair value of the Group's share of identifiable net assets acquired over its cost of Investments of HK$238,905,000 as if the Investments had taken place on 31 December 2005.

The final amount, which may be different to the one presented, to be recorded by the Enlarged Group on completion of the acquisition of the Investments will be determined by the Enlarged Group's interest in the fair value of the identifiable net assets of the Investments, including contingent liabilities (if any), at the date of completion.

3) Loan from the Controlling Shareholder will be recognised initially at fair value, net of transaction costs incurred. The directors of the Company have considered a valuation performed by Sallmanns, and of the view that at 9 June 2006, being the latest practicable date, the fair value of Loan from the Controlling Shareholder to be HK$167,000,000 which can be further analysed into the value of loan portion of HK$188,000,000, netted of the extension option of HK$21,000,000. The loan portion is calculated using the discounted cashflow method with an assumed discount rate of 7.5% for 4 years, whereas the value of the extension option is calculated based on the Black's Model with an assumed forward rate of 7.85%.

The final amount, which may be different to the one presented, to be recorded by the Enlarged Group on completion of the acquisition of the Investments will be determined by the valuation of Loan from the Controlling Shareholder at the date of completion.

B Letter from PricewaterhouseCoopers 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, Certified Public Accountants, Hong Kong for the purpose of incorporation in this Circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

The Directors
Shimao International Holdings Limited

13 June 2006

Dear Sirs,

We report on the unaudited pro forma financial information of Shimao International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 100 to 105 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 13 June 2006 (the "Circular") in connection with the acquisition of the investment of 15.79% interest of Shanghai Overseas United Investment Company Limited, and investment in 51% of Burla Group Limited (collectively the "Investments"). The Investments result in acquisition of an aggregate interest of 33.34% of ZAO Baltyiskaya Zhemchuzhina. The Enlarged Group hereinafter refers to the Group and Burla. 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 Investments might have affected the relevant financial information of the Group as at 31 December 2005. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 100 of the Circular.

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") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated balance sheet of the Group as at 31 December 2005 with the audited financial statements of the Group for the year ended 31 December 2005 as set out in Appendix II to the Circular, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group or the Enlarged Group as at 31 December 2005 or any future dates.

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(1) of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

2. INDEBTEDNESS

Borrowings

At the close of business on 31 March 2006, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group (hereinafter referred to the Group and Burla) had borrowings of approximately HK$775.7 million, which comprised promissory note of HK$136.1 million, convertible note of HK$236.1 million and secured bank loans of HK$403.5 million. The secured bank loans were secured by legal charges over certain properties of the Group. The promissory note is unsecured and is wholly repayable on 24 June 2009. The convertible note is unsecured and matures on 24 June 2007 at their nominal value of HK$250 million. The convertible note can be converted into shares at the holder's option at a conversion price of HK$1.35 per share after 24 June 2006, or redeemable at the option of the Company.

Contingent liabilities

As at 31 March 2006, the Enlarged Group (hereinafter referred to the Group and Burla) had no contingent liabilities.

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 31 March 2006.

3. 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 2005, being the date to which the latest audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, upon completion of the Investments and after taking into account the internal generated funds, available banking facilities and fundings from the Controlling Shareholders, including but not limited to the Loan from the Controlling Shareholder, the Enlarged Group (hereinafter referred to the Group and Burla) has sufficient working capital for its present requirements at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from Sallmanns (Far East) Limited, an independent valuer, in connection with their opinion of the value of the property interests as at 31 March 2006.

Sallmanns

Corporate valuation and consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

13 June 2006

The Board of Directors
Shimao International Holdings Limited
Units 4307-12, 43/F
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests which is owned by Closed Joint Stock Company Baltyiskaya Zhemchuzhina (Baltic Pearl) ("ZAO Baltic Pearl") in St. Petersburg, Russia and Shimao International Holdings Limited (the "Company") intends to hold 33.3395% effective interest of ZAO Baltic Pearl, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interests as at 31 March 2006 (the "date of valuation").

Our valuation of the property interests represent 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".

As well as inspecting the site and visiting the offices of ZAO Baltic Pearl to familiarise ourselves with the proposed development plans for the project, we have engaged a licensed Russian valuer, OOO Korporatchiya "Otcenka" (holder of license no. 007076 for appraising activities issued by the Ministry of Property Relations of the Russian) as our consultant in relation to undertaking the valuation of the property interests. We have had substantial and sufficient discussions with OOO Korporatchiya "Otcenka" in relation to the adopted valuation methodology and are satisfied that the methodology is appropriate.

We have assessed the capital value by direct comparison approach assuming sale of the property interests with the benefit of immediate vacant possession and by making reference to comparable market transactions as available in the relevant market.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests assessed nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors, and the Federal Law No 135-FZ of July 29, 1998 on Valuation activities in the Russian Federation (1), Federal Law No. 143-FZ of 12 November 2002 on Altering the Federal Law on Valuation Activities in the Russian Federation (4), Valuation standards obligatory for subjects of valuation activities (Resolution of the RF Government No 519 of July 6, 2001) (3).

We have relied to a very considerable extent on the information provided by the Company and ZAO Baltic Pearl and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including Land Lease Contract, Addendum to Land Lease Contract, Land Handover Acts, and official plans relating to the property interests and have made relevant enquiries. We have relied considerably on the advice given by the Company's Russian legal adviser – Legas Legal Solutions, concerning the validity of the ZAO Baltic Pearl's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the relevant land parcel which is a large tract of open land forming a comprehensive development area within the boundary of St. Petersburg township.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and ZAO Baltic Pearl. It has been confirmed to us by the Company and ZAO Baltic Pearl that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in US Dollars.

Our valuation certificate is attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited

Andrei A. Serebrennikov
M.Sc.
Consultant

Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 23 years' experience in the valuation of properties in the PRC and 26 years of property valuation experience in Hong Kong, the United Kingdom and the Asia- Pacific region.

Andrei A. Serebrennikov is the General Director of OOO "Korporatchiya "Otcenka" which is holder of license no. 007076 for appraising activities issued by the Ministry of Property Relations of the Russian Federation. Andrei A. Serebrennikov is a full member of Russian Society of Appraisers and has 6 years of property valuation experience in Russian Federation.

VALUATION CERTIFICATE

PROPERTY INTERESTS OWNED BY ZAO BALTIC PEARL

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006 US$
1. Land lease rights in one land parcel at Petergofskoe shosse, Krasnoselskyi raion, St. Petersburg, Russia (The cadastral number of this land parcel is 78:040:02)	The property comprises the land lease rights in a land parcel (the Land) located at Petergofskoe shosse within the Krasnoselskyi raion along the Gulf of Finland coast. It is bounded by the Duderhof Canal and Yuzhno-Primorsky Park on the East and Petergofskoe shosse on the South. A few small derelict huts and structures are erected upon the Land. The Land has a total site area of approximately 1,640,717 sq.m. The Land is held under a lease for development for a term of 8 years ("lease term") commencing after official handover of the Land (which took place on 5 January 2006), with the right of prolongation for a term of 49 years after completion of each phases of the development. The rent payable during the lease term is in a single sum of US$10,000,000 which was paid to St. Petersburg Committee for Managing City Property by ZAO Baltic Pearl on 23 January 2006.	The Land is currently vacant	154,000,000

Notes:

1. Pursuant to a lease document dated 14 May 2005 ("Land Lease Contract'), entered into between *Komitet po ypravleniy gorodskim imyshestvom Sankt-Peterburga* (St. Petersburg Committee for Managing City Property) and *ZAO Baltyiskaya Zhemchuzhina* (ZAO Baltic Pearl, "ZAOBP"), the Land was leased to ZAOBP for development for a term of 8 years commencing on the official handover of the Land (which took place on 5 January 2006), with a right of prolongation for a term of 49 years after completion of each phases of the development. The use of the Land is for the development of the Baltic Pearl multifunctional complex encompassing residential buildings, hotel, offices, shopping, entertainment facilities, health and social centres, and other facilities.

2. Pursuant to the Land Lease Contract, the anticipated floor area of residential development is approximately 1,061,700 sq.m., estimated population is of 35,400. The tentative total area for various development is approximately 1,487,000 sq.m., including:

Use of land	**Approximate land area (sq.m.)**
Residential	830,000
Public and business facilities	150,000
Social facilities	280,000
Landscaping	200,000
Other purposes	40,000

3. Pursuant to the Land Lease Contract, ZAOBP has to pay land rent of USD10,000,000 within 3 months after the effective date of the Land Lease Contract.

4. Pursuant to the Land Lease Contract, the Lessee undertakes to design and build the following:

   (i) social infrastructure facilities of approximate value of US$40,000,000; and

   (ii) engineering infrastructure facilities including mains outside the Land and cabling of high-tension lines, street and road system, bridges, pavement and embankments, canals, landscaping of approximate total value of US$200,000,000.

   The Lessee undertakes to transfer the ownership of the above social infrastructure facilities and engineering infrastructure facilities upon completion of the facilities to the city of St. Petersburg.

5. According to payment receipt no. 54, the rent payable under the Land Lease Contract has been fully paid to St. Petersburg Committee for Managing City Property by ZAO Baltic Pearl on 23 January 2006.

6. Pursuant to two Land Handover Acts (confirmation certificates) dated 2 September 2005 and 5 January 2006, possession of the Land has been handed over to the Lessee.

7. We have been provided with a legal opinion regarding the property interests by the Company's Russian legal advisor, Legas Legal Solutions, which contains, inter alia, the following:

   a) Pursuant to a land lease contract under investment conditions of 14 May 2005 ("Land Lease Contract'), entered into between St. Petersburg City Property Committee and ZAO Baltyiskaya Zhemchuzhina (ZAO Baltic Pearl, "ZAOBP"), the Land was leased to ZAOBP for development for a term of 8 years commencing on the official handover of the Land. The 8-years period started from 6 January 2006 and lasts to 5 January 2014. The use of the Land is for the development of the Baltic Pearl multifunctional complex;

   b) Pursuant to section 4.11 of the Land Lease Contract and in accordance with the Resolution of Saint-Petersburg Government of April 26, 2004 No. 601 ZAOBP has a right of prolongation for a term of 49 years after completion of each phase of the project development;

   c) the Land Lease Contract is duly executed, complied with Russian law, binding for the parties and enforceable;

   d) ZAOBP legally owns the legal interests in the land development and associated rights pursuant to the Land Lease Contract;

   e) ZAOBP has paid the rent of US$10,000,000 on 23 January 2006; and

   f) Having fully paid the rent in pursuance of the Land Lease Contract, ZAOBP can legally occupy, use in accordance with its purpose, develop the Land in accordance with its purpose. In accordance with art. 22 of the Land Code ZAOBP needs not to receive the landlord's (Saint-Petersburg Government) consent in order to transfer or sublet its rights under the Land Lease Contract (while the Land Lease Contract itself contains contradictory provisions in sections 6.3.1, 6.3.2 and 6.4.1). Therefore, notwithstanding the Land Lease Contact's provisions, based on the law in order to transfer or sublease its rights under the Land Lease Contract it is sufficient only to notify the lessor, without receiving its consent for the transaction. However, according to art. 62 of the Law on Hypothec in order to mortgage its rights under the Land Lease Contract, ZAOBP needs to receive a consent of the lessor.

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. DISCLOSURE OF INTERESTS

Interests of Directors in the Company

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:

	Number of Shares			
Name of director	**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 a redeemable convertible note in the aggregate amount of HK$250,000,000 which was issued by the Company on 24 June 2005. 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 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.

Interests of substantial Shareholders in the Company

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) has 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 recorded in the register kept by the Company pursuant to Section 336 of the SFO, who is directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital:

Name	Number of shares held	Percentage of shareholding
Dynamic Keen Developments Limited	185,185,185 *(Note 1)*	22.38%
Perfect Zone International Limited	618,571,397 *(Note 2)*	74.74%
Overseas Investment Group International Limited	618,571,397 *(Note 2)*	74.74%
Trident Corporate Services (B.V.I.) Limited	618,571,397 *(Note 2)*	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 a redeemable convertible note in the aggregate amount of HK$250,000,000 which was issued by the Company on 24 June 2005. 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 for the benefit of his wife and children.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest of short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such capital.

Interests in contract or arrangement

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

Interests in assets

As at the Latest Practicable Date, 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 2005, being the date to which the latest published audited accounts of the Company were made up.

Service contracts

There is no existing or proposed service contract between any of the Directors and the Company or any of its members (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

Directors' interests in competing business

As at the Latest Practicable Date, Mr. Hui owned property development interests in the PRC through Shimao Property Holdings Limited ("SPHL") and a number of private companies ("Private Group") either wholly-owned by Mr. Hui or jointly with his wife and/or Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason (both of whom are Directors). Mr. Hui and Mr. Hui Sai Tan, Jason are executive directors of SPHL. Mr. Hui, Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason hold directorship and/or senior management positions in the Private Group. In February 2005, the Group intended to purse a business strategy of property development and investment in international markets outside mainland PRC, and in this regard, pursuant to a non-competition undertaking entered into between, among others, the Company and SPHL on 19 February 2005 and approved by the shareholders of the Company on 15 September 2005 (the "Undertaking"), so long as Overseas Investment Group International Limited, the controlling shareholder of the Company, directly or indirectly (through its subsidiaries) holds 30% or more of the issued share capital of the Company and SPHL (or controls the exercise of the voting rights in respect thereof), the Company undertakes to SPHL that it (1) shall not, (2) shall procure that its subsidiaries shall not, and (3) shall use its best endeavours to procure that its associated companies shall not, engage in any property business in mainland China (excluding Taiwan, Hong Kong and Macau), except that the Company may continue to hold its interest in the PRC including the Dongfanghong Shopping Centre in Lanzhou, the three retail units in Epoch Centre Phase II in Beijing and the 50% interest in Shimao Lakeside Garden in Shanghai.

Save as disclosed above, as the Group shall focus on the development of the international real estate and investment business by exploring opportunities in overseas markets, the Directors do not believe that there exist any direct or indirect competition in any material respect between the businesses of SPHL/Private Group and those of the Group.

3. 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.

4. EXPERTS AND CONSENTS

The qualification of the experts who have given opinion in this circular is as follows:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
Sallmanns (Far East) Limited	Chartered Surveyors and valuers

As at the Latest Practicable Date, each of PricewaterhouseCoopers and Sallmanns (Far East) Limited has no 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 has no 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 2005, being the date to which the latest published audited accounts of the Company were made up.

Each of PricewaterhouseCoopers and Sallmanns (Far East) Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

5. 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. a sale and purchase agreement dated 19 February 2005 entered into between the Company as purchaser, Dynamic Keen Developments Limited as vendor and Mr. Hui as guarantor relating to the sale and purchase of the entire issued share capital of and a loan due to Dynamic Keen Developments Limited by Value Ahead Investments Limited for an aggregate consideration of HK$496,220,000;

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;

3. a loan agreement dated 15 April 2006 entered into between the Controlling Shareholder and the Company pursuant to which the Controlling Shareholder agreed to advance a loan in the principal amount of HK$232,747,000 to the Company for a term of four years at the interest rate of 2% per annum;

4. the Agreements; and

5. a loan agreement dated 20 April 2006 entered into between the Controlling Shareholder and the Company pursuant to which the Controlling Shareholder agreed to grant an unsecured revolving credit facility of HK$100 million to the Company for a term of 18 months at the interest rate of 2% per annum.

6. GENERAL

(a) The secretary and qualified accountant of the Company is Mr. Yau Kwan Shan, *FCCA, FCPA*.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business in Hong Kong is situated at Units 4307-12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

(c) The branch share registrar of the Company in Hong Kong is Tengis Limited, 26/F, Tesbury Center, 28 Queen's Road East, Wanchai, Hong Kong.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 5:00 p.m. at the Company's principal place of business in Hong Kong at Units 4307-12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong up to and including 27 June 2006:

(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 2005;

(c) the accountants' report of the OU Group, the text of which is set out in Appendix I to this circular;

(d) the letter from PricewaterhouseCoopers on unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(e) the valuation report, the text of which is set out in Appendix IV to this circular;

(f) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(g) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix.