



# Shimao International Holdings Limited

世茂國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 649)

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

### UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board” or the “Directors”) of Shimao International Holdings Limited (the “Company” or “Shimao International”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006.

### Condensed Consolidated Income Statement

For the six months ended 30 June 2006

	NOTES	Six months ended 30 June	
		2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Revenue		88,140	6,061
Cost of sales		<u>(19,071)</u>	<u>(940)</u>
Gross profit		69,069	5,121
Other income		1,716	639
Increase in fair value of investment properties		36,225	2,021
Excess of fair values of net assets acquired over cost of acquisition		—	17,976
Administrative expenses		(26,075)	(20,875)
Finance costs		(21,131)	(2,703)
Share of results of an associate		<u>(506)</u>	<u>8,849</u>
Profit before taxation	4	59,298	11,028
Taxation	5	<u>(18,408)</u>	<u>(1,849)</u>
Profit for the period		<u>40,890</u>	<u>9,179</u>
Dividend paid	6	<u>—</u>	<u>41,382</u>
Earnings per share	7		
Basic		<u>HK4.94 cents</u>	<u>HK1.11 cents</u>
Diluted		<u>HK4.60 cents</u>	<u>N/A</u>

# Condensed Consolidated Balance Sheet

At 30 June 2006

	30 June 2006 <i>(unaudited)</i> HK\$'000	31 December 2005 <i>(audited)</i> HK\$'000
Non-current assets		
Investment properties	869,000	801,826
Property, plant and equipment	322,354	219,461
Prepaid lease payments	653,347	677,878
Interest in an associate	112,140	112,646
Deferred tax assets	21,410	21,410
	<u>1,978,251</u>	<u>1,833,221</u>
Current assets		
Stock of properties	264,451	274,191
Prepaid lease payments	11,273	11,622
Trade receivables	31	816
Prepayments, deposits and other receivables	13,817	10,935
Amounts due from related companies	2,933	—
Bank balances and cash	19,871	27,574
	<u>312,376</u>	<u>325,138</u>
Current liabilities		
Trade payables	243,467	84,976
Advanced proceeds received from customers	6,677	88,245
Other payables and accruals	12,631	58,263
Tax payables	10,367	—
Amount due to ultimate holding company	99,963	40
Amounts due to a related company	6,009	3,220
Bank borrowings	136,800	136,720
	<u>515,914</u>	<u>371,464</u>
Net current liabilities	<u>(203,538)</u>	<u>(46,326)</u>
Total assets less current liabilities	<u>1,774,713</u>	<u>1,786,895</u>
Capital and reserves		
Share capital	82,764	82,764
Reserves	705,998	665,108
Equity attributable to equity holders of the parent	<u>788,762</u>	<u>747,872</u>

Non-current liabilities		
Bank borrowings	262,516	270,919
Promissory note	138,445	136,427
Convertible note	240,609	236,134
Amount received from Suifenhe Land Reserve Centre	55,535	114,642
Deferred tax liabilities	288,846	280,901
	<u>985,951</u>	<u>1,039,023</u>
	<u>1,774,713</u>	<u>1,786,895</u>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

### 1. BASIS OF PREPARATION

The Company is an investment holding company. The principal activities of the Group are property development and property investment.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Group had net current liabilities of approximately HK\$203,538,000 as at 30 June 2006. Notwithstanding, the Directors are of the opinion that the preparation of these condensed consolidated financial statements under going concern basis is appropriate due to the following considerations:

#### (1) Availability of facility and financial support

The amount available to the Group for borrowings under the facility granted by Perfect Zone International Limited ("PZIL"), ultimate holding company, at 30 June 2006 was HK\$100,000,000, in which the Group had not utilised as at 30 June 2006.

PZIL has also committed to providing financial support to enable the Group to meet in full its financial obligations when they arise and to continue the Group's operations for a period of twelve months from the date of this report.

#### (2) Potential sales of the Group's stock of properties

The Group is actively seeking buyers for certain stock of properties.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties, which are measured at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standard, amendment and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) — Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

### 3. SEGMENT INFORMATION

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

Segment information about these businesses is presented below.

#### Business segments

##### Results

	Six months ended 30 June 2006		
	Property development ( <i>unaudited</i> ) HK\$'000	Property investment ( <i>unaudited</i> ) HK\$'000	Total ( <i>unaudited</i> ) HK\$'000
Segment turnover	<u>82,036</u>	<u>6,104</u>	<u>88,140</u>
Segment results	<u>64,253</u>	<u>4,816</u>	<u>69,069</u>
Other income, net			37,941
Corporate administrative expenses			(26,075)
Finance costs			(21,131)
Share of results of an associate	(506)	—	<u>(506)</u>
Profit before taxation			<u>59,298</u>
Taxation			<u>(18,408)</u>
Profit for the period			<u>40,890</u>
	Six months ended 30 June 2005		
	Property development ( <i>unaudited</i> ) HK\$'000	Property investment ( <i>unaudited</i> ) HK\$'000	Total ( <i>unaudited</i> ) HK\$'000
Segment turnover	<u>—</u>	<u>6,061</u>	<u>6,061</u>
Segment results	<u>(1,888)</u>	<u>4,354</u>	2,466
Other income, net			2,244
Corporate administrative expenses			(17,804)

Excess of fair values of net assets acquired over cost of acquisition			17,976
Finance costs			(2,703)
Share of results of an associate	8,849	—	<u>8,849</u>
Profit before taxation			11,028
Taxation			<u>(1,849)</u>
Profit for the period			<u><u>9,179</u></u>

#### 4. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended	
	30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Staff costs, including directors' remuneration		
Salaries and other benefits	6,429	7,401
Contribution to retirement benefits scheme	<u>424</u>	<u>179</u>
Total staff costs	<u>6,853</u>	<u>7,580</u>
Amortisation of prepaid lease payments	7,489	1,693
Less: Amount capitalised in property, plant and equipment	<u>(304)</u>	<u>—</u>
	<u>7,185</u>	<u>1,693</u>
Depreciation of property, plant and equipment	2,556	2,063
Outgoings in respect of investment properties	1,127	637
Gross rental income from investment properties	(6,104)	(6,061)
Interest income	(126)	(69)
Share of tax of an associate (included in share of results of an associate)	<u>—</u>	<u>2,145</u>

#### 5. TAXATION

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current tax		
— Income tax in the People's Republic of China calculated at prevailing rates	10,463	169
Deferred tax	<u>7,945</u>	<u>1,680</u>
	<u>18,408</u>	<u>1,849</u>

No provision for Hong Kong Profits Tax has been made in the financial statements for the six months ended 30 June 2006 and 30 June 2005 as the companies within the Group had no assessable profits arising in Hong Kong.

#### 6. DIVIDEND

No dividend was paid during the period ended 30 June 2006.

During the period ended 30 June 2005, HK5 cents per share amounting to HK\$41,382,000 in aggregate was paid as final dividend for the year ended 31 December 2004.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (the corresponding period in 2005: Nil).

## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>30 June 2006 (unaudited) HK\$'000</b>	30 June 2005 (unaudited) HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share	40,890	9,179
Effect of dilutive potential ordinary shares:		
Interest on convertible note	<u>5,724</u>	<u>—</u>
Earnings for the purposes of diluted earnings per share	<u><b>46,614</b></u>	<u>9,179</u>
	<b>30 June 2006 (unaudited) HK\$'000</b>	30 June 2005 (unaudited) HK\$'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	827,639,886	827,639,886
Effect of dilutive potential ordinary shares:		
convertible note	<u>185,185,185</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><b>1,012,825,071</b></u>	<u>827,639,886</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results Performance

During the period, revenue of the Group was HK\$88,140,000 (the corresponding period in 2005: HK\$6,061,000), representing an increase of 13.5 times compared with the corresponding period last year. Due to the completion of the first phase of Suifenhe project located across the border of the People's Republic of China ("PRC") and Russia, most of the revenue generated from the pre-sale in 2005 has been recognised as revenue during the period. As a result, profit attributable to shareholders of the Group in the first half of 2006 increased to HK\$40,890,000, a growth of 3.5 times as compared to 2005 (the corresponding period in 2005: HK\$9,179,000). Earnings per share rose to HK4.94 cents (2005: HK1.11 cents). The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2006.

### Market Review

#### *Russia*

Underpinned by the climbing oil price over the recent years and the existing support of a financially stable government, Russian economy continued to boost with a substantial growth in its domestic consumption. As at July 2006, the Gross Domestic Product (the "GDP") of Russia grew to 7.4%, representing an increase of 1% as compared to 6.4% for the corresponding period last year. In addition, the Russian government has lifted its GDP target in 2006 from 6.4% to 6.6%. Based on the figures provided by

Bloomberg News, the stock market capitalisation of Russia reached a record high of US\$946.2 billion and the RTS Index in Russia surged 88% over the past 12 months, indicating the satisfactory performance of the overall economy in Russia.

Having long and established history and deep-rooted traditional culture, the PRC and Russia are two largest neighbouring countries and have strategically built a stable relationship in terms of political affairs. Given a proven track record of economic cooperation, they are highly supportive of each other economically. Throughout these years, the cross-boundary trade between these two countries experienced rapid development.

According to the Ministry of Commerce of the PRC, export trade between the PRC and Russia in 2005 reached US\$29.01 billion, representing a sharp increase of 37.1% as compared to 2004. The PRC has become one of the largest trading partners of Russia. The PRC's investment in Russia from January to September 2005 amounted to US\$368 million, doubling the amount in 2004.

For the first eleven months in 2005, cross-border trade between the PRC and Russia reached US\$5.13 billion with a year-on-year growth rate of 35%, representing 20% of the total trade in Russia. The Sino-Russian import and export trade through the land port of Suifenhe for the year 2005 also exceeded US\$2.5 billion, the highest among all the Sino-Russian trading land ports, contributing to a robust economic growth in the region.

### ***Hong Kong***

In the first half of 2006, Hong Kong's economy displayed strong growth momentum. Real GDP growth recorded 5.2% in the second quarter as compared to the corresponding period last year. With the continual improvement in the employment market, trading of the property market resumed its activeness.

Due to continuous limited land supply for luxury residential development, demand for residential property is in excess of supply, which stimulated property prices to increase. The number of property transactions rises gradually, with the most spectacular performance in the luxury residential property sector. Demand for luxury residential properties on the Hong Kong Island has always been in excess of supply, and it is expected that the supply of luxury residential properties in the second half of 2006 will be inadequate. As demand for these properties will remain high, prices of luxury residential properties will continue to bolster an upward trend.

### **Business Review**

During the period 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 direction for business development, the Group will strive to enhance its competitiveness so as to capture potential opportunities ahead.

### **Project Development**

#### ***“Suifenhe-Pogranichny Cross-border Trade Zone”***

The Suifenhe Shimao development project is located at the commercial and tourist development zone across the national boundary of the PRC and Russia with a total site area of approximately 4.53 sq. km., of which two-thirds is within the Russian territory. The project is located at the largest Sino-Russian land checkpoint for trade and close to Nakhodka, the Far East free economic zone. Having a railway and two highways connecting directly to Russia, it is strategically located with various geographical competitive edges. The project is positioned as the first of its kind across the Sino-Russian border, and through the exchange of documents between the PRC and Russia, the project is recognised as the first independent trade zone by integrating all trading, logistics, modern industry, business, exhibition, entertainment and leisure and travelling activities. This has brought significant effect to the economy and trade between the

PRC and Russia. Capitalising on the highly correlated competitive edges of the PRC and Russia economies, the project will develop into an extensive and energetic trade zone with various traders and enormous potential cross-border opportunities.

During the period under review, Shimao International and its Russian partner have jointly developed a large-scale comprehensive commercial project, namely Sino-Russian “Suifenhe-Pogranichny Cross-border Trade Zone”. The project, located at the Municipality of Suifenhe, Heilongjiang Province, commenced its formal operation on 16 August 2006 and the first phase of construction has already been completed.

The first phase of construction includes Shimao International Commercial and Exhibition Centre (Phase 1) and Holiday Inn Suifenhe. These two projects are the landmarks of “Suifenhe-Pogranichny Cross-border Trade Zone”.

- *Shimao International Commercial and Exhibition Centre*

The four-storeyed Shimao International Commercial and Exhibition Centre (Phase 1) has a total site area and a total gross floor area of approximately 38,000 sq. m. and 83,000 sq. m., respectively, offering around 1,800 shops suitable for wholesale, retail, exhibition, food and beverage and entertainment businesses. It gathers special commodities with the PRC and Russian characteristics and acts as the best platform for cross-boundary trading.

- *Holiday Inn Suifenhe*

Holiday Inn Suifenhe is the first five-star hotel in the region. It has a total site area and a total gross floor area of 33,924 sq. m. and 49,000 sq. m., respectively. The eight-storeyed building comprises one basement floor and seven floors above the ground level. The hotel is designed by a renowned U.S. design company, and will be managed by the globally renowned hotel group InterContinental Hotels Group. The hotel offers approximately 300 guest rooms and comprehensive ancillary facilities, including a magnificent café, Chinese and western restaurants, ballrooms, multifunctional conference rooms, swimming pools, entertainment centres and business centres, etc. The hotel has also commenced trial operation on 16 August 2006. Because of the less costly labour force in the region, the hotel has been able to lower its operating cost. The Group is highly optimistic about the future prospects of this hotel.

### ***The Baltic Pearl Project***

The Group intended to participate in the property investment and development of the Baltic Pearl Project in St. Petersburg of Russia and despatched relevant circular to the Company’s shareholders during the period.

The Baltic Pearl Project is a large-scale project invested by the PRC enterprises in St. Petersburg of Russia. Currently, it is the largest real estate investment project of the PRC enterprises in Russia. Upon completion, it will become the largest complex with well-equipped facilities across northern Europe.

The Baltic Pearl Project is a multifunctional complex encompassing residential buildings, hotels, offices, shopping and entertainment facilities as well as convention centres with a total gross floor area of approximately 1,640,000 sq. m..

### **Hong Kong Business**

The luxurious residential project “No. 21 Severn Road”, which is wholly-owned by the Group, is located in the upmarket residential district of Severn Road, The Peak. The two four-storeyed detached houses offer a spectacular sea view and a total gross floor area of approximately 6,000 sq. ft. each. Each detached house has an area of over 6,000 sq. ft. of garden, swimming pool, sheltered parking and sightseeing elevator, plus a spectacular 180-degree sea view of the Victoria Harbour. The entire architectural and interior design seamlessly combines life style, architecture and nature. Its premier design has won the Annual Awards 2004 — Merit by the Hong Kong Institute of Architects.



## **Prospects for the Second Half of 2006**

The Board is confident of the Group's future development prospects. Given the booming global economy and favourable prospects of the property industry, Shimao International has implemented a series of strategies as follows:

- actively seek development opportunities on a global level
- continue to explore new opportunities of the Group's business in Russia
- sale of the project "No. 21 Severn Road" to bring favourable returns for the Group
- enhance regional management, attract high calibre personnel and place emphasis on staff training

With the implementation of business strategies in respect of properties development and investment in international market, the Group will leverage its extensive experience in the property market to bring remarkable return for its shareholders.

## **FINANCIAL ANALYSIS**

### **Interim Operating Results**

For the six months ended 30 June 2006, the revenue of the Group (mainly included sales of shops and rental income) was HK\$88,140,000, representing an increase of 13.5 times as compared to 2005 (the corresponding period in 2005: HK\$6,061,000). The increase in revenue was mainly attributed to the completion of the first phase of Suifenhe Shimao project during the period, and the revenue generated from the pre-sale in 2005 has been recognised as revenue in the first half of 2006. Profit attributable to shareholders of the Company was HK\$40,890,000, a growth of 3.5 times as compared to 2005 (the corresponding period in 2005: HK\$9,179,000).

Other operating income amounted to HK\$37,941,000 (the corresponding period in 2005: HK\$20,636,000), which mainly included the increase in fair value of investment properties of the Group.

Finance cost was HK\$21,131,000 (the corresponding period in 2005: HK\$2,703,000). Due to the increase in borrowings and interest rate, the interest expenses rose subsequently. In addition, the increase in finance cost is attributable to the amortisation of promissory notes and convertible notes of the Company.

### **Liquidity, Financial Resources and Bank Loans**

During the period under review, the Group's liquidity maintained at a healthy level and its financial resources were well distributed. As of 30 June 2006, total assets of the Group reached HK\$2,290,627,000, of which current assets amounted to HK\$312,376,000. Total liabilities was HK\$1,501,865,000 and non-current liabilities was HK\$985,951,000. The equity attributable to the shareholders of the Company amounted to HK\$788,762,000.

As of 30 June 2006, the Group had aggregate cash and bank balances of approximately HK\$19,871,000 (31 December 2005: HK\$27,574,000), and an aggregate short-term and long-term bank borrowings of approximately HK\$399,316,000 (31 December 2005: HK\$407,639,000). The average interest rate of the bank loans ranged between 5.4% p.a. to 6.5% p.a..

### **Pledge of Assets**

As of 30 June 2006, the Group had properties with a total carrying amount of approximately HK\$542,163,000 (31 December 2005: HK\$518,974,000) under pledge in favour of banks to secure the facilities granted to the Group. Its respective bank borrowings were HK\$399,316,000.

## **Contingent Liabilities**

The Company has provided guarantee in respect of banking facilities in an aggregate amount of HK\$399,316,000 (31 December 2005: HK\$407,639,000) granted to its subsidiaries. As of 30 June 2006, the banking facilities utilised by these subsidiaries amounted to approximately HK\$399,316,000 (31 December 2005: HK\$407,639,000).

## **Foreign Exchange Risk**

Most of the Group's assets, liabilities and business transactions are denominated in Hong Kong dollar and Renminbi, with a small proportion in US dollar. 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 the exchange risk will not affect the Group's business in the future. As of 30 June 2006, 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 of 30 June 2006, the Group employed a total of 110 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 staff's performance. The Group also provides adequate training and continuous professional development opportunities to its employees.

# **CORPORATE GOVERNANCE AND OTHER INFORMATION**

## **Corporate Governance**

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

### *Audit Committee*

The Company has established an Audit Committee with specific written terms of reference which deal clearly with its authority and duties. As laid down in the terms of reference, the Audit Committee is responsible for reviewing the financial controls, internal control and risk management systems, annual report and accounts, and half-year report. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Liu Hing Hung, Mr. Lee Chack Fan and Mr. Zhu Wenhui. Mr. Liu Hing Hung is the chairman of the Audit Committee.

The unaudited consolidated interim results of the Group for the six months ended 30 June 2006 has been reviewed by the Audit Committee and Messrs. Deloitte Touche Tohmatsu, the auditors of the Company.

### *Remuneration Committee*

The Company has established a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties. The Remuneration Committee determines the Group's remuneration policy and reviews, in particular, the remuneration packages of the Directors and the senior management. It also makes recommendations to the Board on the annual salary adjustment and provision of the performance bonus. A majority of the members of the Remuneration Committee are independent non-executive Directors. This Committee is chaired by Ms. Hui Mei Mei, Carol. The other members are Mr. Lee Chack Fan and Mr. Liu Hing Hung.

### **Compliance with Code on Corporate Governance Practices**

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006.

### **Purchase, Sale or Redemption of Listed Securities**

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board  
**Hui Wing Mau**  
*Chairman*

As at the date of this announcement, the Board comprises:

#### *Directors:*

Hui Wing Mau  
*(Chairman and Non-executive Director)*  
Hui Mei Mei, Carol  
*(Deputy Chairman and Executive Director)*  
Tung Chi Shing *(Executive Director)*  
Chan Loo Shya *(Executive Director)*

#### *Independent Non-executive Directors:*

Lee Chack Fan  
Liu Hing Hung  
Zhu Wenhui

Hong Kong, 18 September 2006

*Please also refer to the published version of this announcement in **The Standard**.*