



Shimao International Holdings Limited

世茂國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 649)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

The Board of Directors (the “Board” or the “Directors”) of Shimao International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	4	104,943	13,987
Cost of sales		<u>(53,446)</u>	<u>(2,540)</u>
Gross profit		51,497	11,447
Other income		7,795	1,120
(Decrease) increase in fair value of investment properties		(53,001)	224,642
Selling expenses		(16,048)	(10,353)
Administrative expenses		(80,399)	(54,582)
Excess of fair values of net assets acquired over cost of acquisition		—	17,976
Share of (loss) profit of an associate		(87,158)	6,012
Finance costs	6	<u>(41,024)</u>	<u>(33,154)</u>
(Loss) profit before tax		(218,338)	163,108
Income tax credit (expense)	7	<u>24,514</u>	<u>(54,099)</u>
(Loss) profit for the year	8	<u>(193,824)</u>	<u>109,009</u>
2004 final dividend of HK\$0.05 per ordinary share, paid		<u>—</u>	<u>41,382</u>
(LOSS) EARNINGS PER SHARE	9		
Basic		<u>HK(23.4) cents</u>	<u>HK13.2 cents</u>
Diluted		<u>HK(23.4) cents</u>	<u>HK12.4 cents</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (restated)
Non-current Assets			
Investment properties		830,900	801,826
Property, plant and equipment		390,131	219,461
Prepaid lease payments		662,247	677,878
Investment in an associate		25,488	112,646
Deferred tax assets		28,871	21,410
		<u>1,937,637</u>	<u>1,833,221</u>
Current Assets			
Properties held for sale		229,087	263,597
Prepaid lease payments		12,235	11,622
Trade receivables	10	1,268	816
Other receivables		10,115	10,935
Amount due from a related company		3,610	—
Bank balances and cash		48,798	27,574
		<u>305,113</u>	<u>314,544</u>
Current Liabilities			
Trade payables	11	47,377	84,976
Advanced proceeds received from customers		2,260	88,245
Other payables		157,610	27,454
Tax liabilities		35,380	30,809
Amount due to ultimate holding company		198,003	40
Amounts due to related companies		8,797	3,220
Secured bank borrowings — due within one year		201,946	136,720
Convertible note		245,304	—
		<u>896,677</u>	<u>371,464</u>
Net Current Liabilities		<u>(591,564)</u>	<u>(56,920)</u>
Total Assets less Current Liabilities		<u>1,346,073</u>	<u>1,776,301</u>
Capital and Reserves			
Share capital		82,764	82,764
Reserves		546,509	665,108
Total Equity		<u>629,273</u>	<u>747,872</u>
Non-current Liabilities			

Secured bank borrowings — due after one year	263,992	270,919
Promissory notes	140,839	136,427
Convertible note	—	236,134
Amount received from Suifenhe Land Reserve Centre	39,883	104,048
Deferred tax liabilities	<u>272,086</u>	<u>280,901</u>
	<u>716,800</u>	<u>1,028,429</u>
	<u>1,346,073</u>	<u>1,776,301</u>

NOTES TO THE ACCOUNTS

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent and ultimate holding company is Perfect Zone International Limited (“PZIL”) (incorporated in British Virgin Islands).

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are property development, property investment and hotel operation.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on a going concern basis because its ultimate holding company, PZIL, has agreed to provide adequate funds to enable the Group to meet in full its financial obligations as they fall due in the foreseeable future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“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 and financial position for the current or prior accounting periods have been prepared and presented.

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) – Int 11	HKFRS 2 — Group and Treasury Share Transactions ⁶

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

⁵ Effective for annual periods beginning on or after 1 November 2006

⁶ Effective for annual periods beginning on or after 1 March 2007

4. REVENUE

An analysis of the Group's revenue is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Sales of properties	88,453	—
Rental income	14,186	13,987
Revenue from hotel operation	<u>2,304</u>	<u>—</u>
	<u><u>104,943</u></u>	<u><u>13,987</u></u>

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions — property development, property investment and hotel operation. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 December 2006

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Hotel operation <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE	<u>88,453</u>	<u>14,186</u>	<u>2,304</u>	<u>104,943</u>
SEGMENT RESULTS	<u>15,734</u>	<u>(44,484)</u>	<u>(7,908)</u>	<u>(36,658)</u>
Other income				7,795
Unallocated corporate expenses				(61,293)
Finance costs				(41,024)
Share of loss of an associate	(87,158)	—	—	<u>(87,158)</u>
Loss before tax				(218,338)
Income tax credit				<u>24,514</u>
Loss for the year				<u><u>(193,824)</u></u>

Year ended 31 December 2005

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Hotel operation <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE	<u>—</u>	<u>13,987</u>	<u>—</u>	<u>13,987</u>
SEGMENT RESULTS	<u>(18,441)</u>	<u>233,117</u>	<u>—</u>	214,676
Other income				1,120
Excess of fair values of net assets acquired over cost of acquisition				17,976

Unallocated corporate expenses				(43,522)
Share of profit of an associate	6,012	—	—	6,012
Finance costs				<u>(33,154)</u>
Profit before tax				163,108
Income tax expense				<u>(54,099)</u>
Profit for the year				<u><u>109,009</u></u>

BALANCE SHEET

As at 31 December 2006

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Total HK\$'000
Assets				
Segment assets	229,087	876,760	288,968	1,394,815
Investment in an associate	25,488	—	—	25,488
Unallocated corporate assets				<u>822,447</u>
				<u><u>2,242,750</u></u>
Liabilities				
Segment liabilities	8,864	6,094	3,440	18,398
Unallocated corporate liabilities				<u>1,595,079</u>
Consolidated total liabilities				<u><u>1,613,477</u></u>

OTHER INFORMATION

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital additions	20,747	644	157,146	3,632	182,169
Depreciation and amortisation	<u>5,708</u>	<u>277</u>	<u>6,149</u>	<u>10,883</u>	<u>23,017</u>

BALANCE SHEET

As at 31 December 2005

	Property development HK\$'000 (restated)	Property investment HK\$'000 (restated)	Hotel operation HK\$'000	Total HK\$'000 (restated)
Assets				
Segment assets	263,597	947,380	—	1,210,977
Investment in an associate	112,646	—	—	112,646
Unallocated corporate assets				<u>824,142</u>

Consolidated total assets				<u>2,147,765</u>
Liabilities				
Segment liabilities	12,311	3,974	—	16,285
Unallocated corporate liabilities				<u>1,383,608</u>
Consolidated total liabilities				<u>1,399,893</u>

OTHER INFORMATION

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital additions	—	137,790	—	105,696	243,486
Depreciation and amortisation	<u>4,968</u>	<u>—</u>	<u>—</u>	<u>8,061</u>	<u>13,029</u>

Geographical segments

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

Included in revenue of the Group was rental income received from a related company amounting to HK\$997,000 (2005: Nil) derived in Hong Kong and all the remaining revenue of the Group were derived in the PRC.

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

	Carrying amount of segment assets		Capital expenditure	
	2006 HK\$'000	2005 HK\$'000 <i>(restated)</i>	2006 HK\$'000	2005 HK\$'000 <i>(restated)</i>
Hong Kong	196,132	144,331	20,764	6,423
Mainland China	<u>1,198,683</u>	<u>1,066,646</u>	<u>161,405</u>	<u>237,063</u>
	<u>1,394,815</u>	<u>1,210,977</u>	<u>182,169</u>	<u>243,486</u>

6. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings wholly repayable within five years	14,510	6,071
Interest on bank borrowing not wholly repayable within five years	7,003	4,925
Imputed interest on promissory notes	7,841	16,434
Imputed interest on convertible note	<u>11,670</u>	<u>5,724</u>
	<u>41,024</u>	<u>33,154</u>

7. INCOME TAX CREDIT (EXPENSE)

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current tax arising in the PRC	(5,584)	(420)
Deferred tax	<u>30,098</u>	<u>(53,679)</u>
	<u>24,514</u>	<u>(54,099)</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from Hong Kong for both years. Taxation arising in the PRC is calculated on the estimated assessable profit for the year at the rate of taxation prevailing in the PRC.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Group is exempted from PRC local income tax of 3% for ten years up to 2014.

In addition, a PRC subsidiary is a wholly foreign-owned enterprises and in accordance with the tax legislation applicable to foreign investment enterprises, this subsidiary is entitled to full tax exemption from enterprise income tax for first two profit making years and 50% reduction from the full enterprises income of 24% for the next three profit making years, after which it will have to pay the enterprises income tax at the then prevailing.

8. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging (crediting):

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Amortisation of prepaid lease payments	12,409	12,863
Less: Amount capitalised in property, plant and equipment	<u>(422)</u>	<u>(4,509)</u>
	<u>11,987</u>	<u>8,354</u>
Auditors' remuneration	1,023	955
Gross rental income from investment properties	14,186	13,987
Less: direct operating expenses from investment properties that generated rental income during the year	<u>(5,669)</u>	<u>(5,277)</u>
	<u>8,517</u>	<u>8,710</u>
Staff costs, including directors' emoluments	23,753	21,060
Share option expenses	2,572	—
Retirement benefits scheme contributions	<u>687</u>	<u>535</u>
Total staff costs	<u>27,012</u>	<u>21,595</u>
Depreciation of property, plant and equipment	11,030	4,675
Net exchange losses	<u>21,850</u>	<u>—</u>

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(restated)</i>
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	(193,824)	109,009
Effect of dilutive potential ordinary shares:		
Interest on convertible note	<u>11,670</u>	<u>5,724</u>
(Loss) earnings for the purposes of diluted (loss) earnings per share	<u>(182,154)</u>	<u>114,733</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	827,639,886	827,639,886
Effect of dilutive potential ordinary shares:		
Convertible note	—	96,397,768
Share options	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>827,639,886</u>	<u>924,037,654</u>

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible note and share options since their exercise would result in an decrease in loss per share from operations.

10. TRADE RECEIVABLES

The Group normally allows an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade receivables as at the balance sheet date:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0–60 days	464	720
61–90 days	218	96
Over 90 days	<u>586</u>	<u>—</u>
	<u>1,268</u>	<u>816</u>

11. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet date:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0–60 days	46,546	84,976
61–90 days	47	—
Over 90 days	<u>784</u>	<u>—</u>
	<u>47,377</u>	<u>84,976</u>

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to present the audited consolidated results of the Group for the year ended 31 December 2006.

Results Performance

For the year ended 31 December 2006, revenue of the Group was HK\$104,943,000 (2005: HK\$13,987,000), representing an increase of HK\$90,956,000 as compared with last year. Loss attributable to shareholders of the Group during the year amounted to HK\$193,824,000 (2005 profit attributable to shareholders: HK\$109,009,000). Basic loss per share were HK23.4 cents (basic earnings per share of 2005: HK13.2 cents).

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 December 2006 (2005: Nil).

Business Review

During the year under review, the Group continuously focused on strategic development of its international property development and investment business. However, the Group's business was affected by the implementation of "Ban on Commerce" imposed by Russia. In the future, the Group will invariably leverage on its resources in the hope of bringing reasonable return for its shareholders.

International Business

"Suifenhe-Pogranichny Cross-border Trade Zone"

On the backdrop of the increasingly prosperous Sino-Russian cross-border trade, Shimao International Commercial and Exhibition Centre and Holiday Inn Suifenhe developed by the Group in the Municipality of Suifenhe, Heilongjiang Province were completed and have commenced operation in August 2006. However, due to various measures imposed by the Russian Government within the year, including the limits on the Russians' number of goods purchased from, and purchase frequency in, the People's Republic of China ("PRC") and the introduction of the "Ban on Commerce" which have restricted the Chinese to conduct retail business within Russia. All aforementioned measures affected not only the Sino-Russian cross-border trade, but also the letting front of the Group's shopping malls and hotels. The Group will attract more tenants by launching various offers and strengthening advertising.

Baltic Pearl Project

The Group jointly participated in the property investment and development of the Baltic Pearl Project in St. Petersburg of Russia with several companies during the year. Since certain terms on project development were not fulfilled or waived within the extended period, the Group's participation in the project has been suspended.

Hong Kong Business

In retrospect of 2006, Hong Kong's economy showed a rosy picture with a growth rate of 6.8%. Factors such as overall improvement in employment conditions and increasing individual income fuelled fervent investment sentiment, particularly towards trading in the stock and property markets, driving up demand for residential properties.

However, the Group intended to sell the luxurious residential project "No. 21 Severn Road" of Hong Kong in a prudent manner to maximise return for the shareholders.

Prospects

In addition to making good use of its resources, the Group will leverage on its well-established experience in the international property market to grasp commercial opportunities in a prudent manner and strive to maximise return for its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

As at 31 December 2006, the turnover of the Group was HK\$104,943,000 (2005: HK\$13,987,000), representing a significant increase of 6.5 times as compared with last year. It was mainly due to the recognition of sales income from certain shops of Shimao International Commercial and Exhibition Centre (Phase 1). Besides, increase in rental income of investment properties and of hotel was also recorded.

Loss attributable to shareholders of the Group for the year was HK\$193,824,000 (profit attributable to shareholders in 2005: HK\$109,009,000), which included provision for the share of land appreciation tax of an associate of HK\$103,237,000. The Group has made provisions in view of the Notice on Settlement of Land Value-Added Tax for Real Estates Enterprises issued by the State Administration of Taxation on 16 January 2007. In addition, fair value adjustment of investment properties also dropped by HK\$53,001,000. Operating loss was HK\$37,586,000 without taking account into the above factors.

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 2006, total assets of the Group reached HK\$2,242,750,000, of which non-current assets and current assets amounted to HK\$1,937,637,000 and HK\$305,113,000 respectively, total liabilities were HK\$1,613,477,000, non-current liabilities were HK\$716,800,000 and equity attributable to the shareholders of the Company amounted to HK\$629,273,000, decreased by 15.9% over HK\$747,872,000 of last year.

Moreover, as at 31 December 2006, the Group had aggregate cash and bank balances of approximately HK\$48,798,000 (31 December 2005: HK\$27,574,000) and bank borrowings of approximately HK\$465,938,000 (31 December 2005: HK\$407,639,000). Average interest rate of the bank loans ranged between 5.4% to 6.2%.

Pledge of Assets

As at 31 December 2006, the Group had leasehold land and buildings with total carrying amount of approximately HK\$819,801,000 (31 December 2005: HK\$518,974,000) under pledge in favour of banks to secure the facilities granted to the Group. The facilities utilised as of 31 December 2006 amounted to HK\$465,938,000 (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 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 2006, the Group has 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 recognized corporate management standards to safeguard the interests of shareholders.

Employees and Remuneration Policy

As at 31 December 2006, the Group employed a total of 74 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.

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 Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange 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 year ended 31 December 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 annual results of the Group for the year ended 31 December 2006 have been reviewed by the Audit Committee.

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 year ended 31 December 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

ANNUAL GENERAL MEETING

The 2007 annual general meeting of the Company will be held on 16 May 2007. A notice convening the annual general meeting will be published and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

The register of members of the Company will be closed from Monday, 14 May 2007 to Wednesday, 16 May 2007, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to attend the 2007 annual general meeting of the Company to be held on 16 May 2007, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 11 May 2007.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This results announcement will be published on the Stock Exchange's website and the 2006 annual report of the Company containing all information required under the Listing Rules will be dispatched to shareholders of the Company and made available on the website of the Stock Exchange in due course.

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, 16 March 2007

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