
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Shimao International Holdings Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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Perfect Zone International Limited

(Incorporated in the British Virgin Islands with limited liability)

Shimao International Holdings Limited

世茂國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 649)

**PROPOSED PRIVATISATION OF
SHIMAO INTERNATIONAL HOLDINGS LIMITED
BY PERFECT ZONE INTERNATIONAL LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
AND
CONDITIONAL OFFER TO PAY THE OPTION CANCELLATION PRICE
TO EACH OPTION HOLDER FOR CANCELLING THE SHARE OPTIONS
AND
WITHDRAWAL OF LISTING
AND
CONNECTED TRANSACTION IN RELATION TO
THE EXTENSION OF THE MATURITY DATE OF THE CONVERTIBLE NOTE**

Financial adviser to Perfect Zone International Limited



Independent financial adviser to the Independent Board Committee



A letter from the Board is set out on pages 8 to 21 of this document. An Explanatory Statement regarding the Proposals is set out on pages 49 to 62 of this document. A letter from the Independent Board Committee containing its advice to the Proposal Independent Shareholders and the Option Holders in relation to the Proposals and to the Extension Independent Shareholders in relation to the Extension is set out on pages 22 to 23 of this document. A letter from Kingsway Capital Limited, being the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposals and the Extension is set out on pages 24 to 48 of this document.

The actions to be taken by the Shareholders and the Option Holders are set out on pages 19 to 20 of this document.

Notices of the Court Meeting and the SGM both to be held on Wednesday, 27 June 2007 are set out on pages 139 to 143 of this document. Whether or not you are able to attend the Court Meeting and/or the SGM in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the SGM, in accordance with the respective instructions printed thereon, and to lodge them with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not later than the times and dates as stated under the section headed "Actions to be taken by the Shareholders" on page 19 of this document. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so lodged.

This document is jointly issued by Shimao International Holdings Limited and Perfect Zone International Limited.

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DEFINITIONS

“Announcement Date”	19 April 2007, being the date of the Joint Announcement
“associate(s)”	has the meaning ascribed to it in the Takeovers Code
“Authorisations”	all the necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposals
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Shimao International Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
“Convertible Note”	the convertible note due 2007 issued to Dynamic Keen on 24 June 2005 with an outstanding principal amount of HK\$250,000,000 entitling the holder to convert into a total of 185,185,185 new Shares on the basis of the initial conversion price of HK\$1.35 per Share
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Supreme Court at which the Scheme will be voted upon, notice of which is set out on pages 139 to 140 of this document, or any adjournment thereof
“Directors”	the director(s) of the Company
“Dynamic Keen”	Dynamic Keen Developments Limited, a company incorporated in BVI and wholly and beneficially owned by Mr. Hui
“Effective Date”	the date on which the Scheme, if approved, becomes effective in accordance with the Scheme
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Explanatory Statement”	the explanatory statement set out on pages 49 to 62 of this document in compliance with Section 100 of the Companies Act
“Extension”	the extension of the Maturity Date from 20 June 2007 to 20 June 2008 pursuant to the Supplemental Deed
“Extension Independent Shareholders”	Shareholders other than Dynamic Keen and its associates (as defined under the Listing Rules) including, but not limited to, the Offeror
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board comprising the independent non-executive Directors, namely, Mr. Lee Chack Fan, Mr. Liu Hing Hung and Mr. Zhu Wenhui
“Joint Announcement”	the joint announcement dated 19 April 2007 of the Company and the Offeror relating to, inter alia, the Proposals
“Kingsway”	Kingsway Capital Limited, the independent financial adviser to the Independent Board Committee and a corporation licensed to carry on type 6 regulated activity (advising on corporate finance) under the SFO
“Latest Practicable Date”	1 June 2007, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Letter to Option Holders”	the letter setting out the terms and conditions of the Option Offer to be sent to the Option Holders, substantially in the form set out in Appendix IV to this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	means 30 September 2007 or such later date as may be mutually agreed by the Company and Dynamic Keen on or before which approval for the amendments to the Convertible Note as contemplated under the Supplemental Deed shall be obtained from the Extension Independent Shareholders
“Maturity Date”	maturing date of the Convertible Note, currently being 20 June 2007
“Mr. Hui”	Mr. Hui Wing Mau, a non-executive Director and Chairman of the Company
“Offeror” or “Perfect Zone”	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 Trust Company (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 controlling Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date
“Option(s)”	share option(s) granted by the Company to the Directors and employees of the Group pursuant to the Share Option Scheme
“Option Cancellation Price”	the price of HK\$0.46 payable by the Offeror to the Option Holders in consideration for their agreement to cancel their Options
“Option Exercise Date”	the date which is the fifth trading day preceding the date of the Court Meeting. Based on the currently expected date of the Court Meeting, the Option Exercise Date is expected to be Wednesday, 20 June 2007
“Option Holder(s)”	holder(s) of Option(s)

DEFINITIONS

“Option-holder Form of Acceptance”	the form of acceptance accompanying the Letter to Option Holders to be despatched to the Option Holders in connection with the Option Offer
“Option Offer”	the conditional cash offer to be made by the Offeror to pay the Option Cancellation Price to each Option Holder in consideration for his/her agreement to cancel each Option held by him/her, further details of which are set out in the section headed “The Option Offer” on pages 10 to 11 of this document
“parties acting in concert”/ “acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Partners Capital”	Partners Capital International Limited, a corporation licensed to carry on types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the SFO
“PRC”	the People’s Republic of China which, for the purpose of this document, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proposal”	the proposal to the Scheme Shareholders for the privatization of the Company by the Offeror by way of the Scheme
“Proposal Independent Shareholders”	Shareholders other than the Offeror and the parties acting in concert with it
“Proposals”	the Proposal and the Option Offer
“Record Time”	5:00 p.m. on Monday, 23 July 2007 (Hong Kong Time), or such other time as shall have been announced to the Shareholders for determining their entitlements under the Scheme
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Relevant Period”	the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date
“Savills”	Savills Valuation and Professional Services Limited, the independent professional valuers
“Scheme”	a scheme of arrangement under Section 99 of the Companies Act between the Company and the Scheme Shareholders involving the cancellation of all the Scheme Shares
“Scheme Share(s)”	Share(s) held by the Scheme Shareholders
“Scheme Shareholder(s)”	Shareholders other than the Offeror
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	a special general meeting of the Company to be held to consider and approve, amongst other matters, the implementation of the Scheme and the Extension, notice of which is set out on pages 141 to 143 of this document, or any adjournment thereof
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Share Cancellation Price”	the share cancellation price of HK\$1.050 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders under the Proposal
“Shareholder(s)”	holder(s) of the Shares
“Share Option Scheme”	the share option scheme adopted by the Company on 13 June 2005
“Supplemental Deed”	the supplemental deed supplemental to the Convertible Note dated 19 April 2007 entered into between the Company and Dynamic Keen in relation to, amongst other matters, the Extension
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Court	the Supreme Court of Bermuda
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

All references in this document to times and dates are references to Hong Kong times and dates other than references to the expected dates of the Supreme Court hearing of the petition to sanction the Scheme, the registration of the Supreme Court order, the Effective Date and the date of the lapse of the Options, which are references to the relevant dates in Bermuda. As at the date of this document, Bermuda time is 11 hours behind Hong Kong time.

EXPECTED TIMETABLE

The following timetable takes into account the Supreme Court procedures for the Scheme. The expected timetable is indicative only and is subject to change.

Hong Kong time

Commencement date of the Option Offer	Monday, 4 June 2007
Latest date for exercising Options to qualify for attending and voting at the Court Meeting and the SGM and for entitlements under the Scheme (i.e. the Option Exercise Date)	Wednesday, 20 June 2007
Latest time for lodging transfers of the Shares to qualify for attending and voting at the Court Meeting and the SGM	4:00 p.m. on Thursday, 21 June 2007
Closure of the register of members of the Company for determination of entitlements of the Proposal Independent Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the SGM	From Friday, 22 June 2007 to Wednesday, 27 June 2007 (both dates inclusive)
Latest time for lodging forms of proxy in respect of:	
the Court Meeting (<i>Note 1</i>)	10:00 a.m. on Monday, 25 June 2007
the SGM (<i>Note 1</i>)	10:30 a.m. on Monday, 25 June 2007
Suspension of dealings in the Shares	9:30 a.m. on Wednesday, 27 June 2007
The Court Meeting (<i>Note 2</i>)	10:00 a.m. on Wednesday, 27 June 2007
The SGM (<i>Note 2</i>)	10:30 a.m. on Wednesday, 27 June 2007 or as soon thereafter as the Court Meeting shall have been concluded or adjourned
Publication of the results of the Court Meeting and the SGM on the Stock Exchange's website	7:00 p.m. on Wednesday, 27 June 2007
Publication of the results of the Court Meeting and the SGM on the Company's website	Thursday, 28 June 2007
Resumption of dealings in the Shares	9:30 a.m. on Thursday, 28 June 2007
Supreme Court hearing of the petition to sanction the Scheme (<i>Note 3</i>)	Friday, 13 July 2007 (Bermuda time)
Suspension of dealings in the Shares	9:30 a.m. on Monday, 16 July 2007
Publication of the results of hearing of the petition to sanction the Scheme on the Company's website and the Stock Exchange's website	Tuesday, 17 July 2007

EXPECTED TIMETABLE

Resumption of dealings in the Shares	9:30 a.m. on Tuesday, 17 July 2007
Last day for dealings in the Shares	Tuesday, 17 July 2007
Latest time for lodging transfers of the Shares to qualify for entitlements under the Scheme.	4:00 p.m. on Friday, 20 July 2007
Latest time for lodging the Option-holder Form of Acceptance by the Option Holders.	4:00 p.m. on Friday, 20 July 2007
Closure of the register of members of the Company for determination of payments to the Scheme Shareholders	From Monday, 23 July 2007 to Thursday, 26 July 2007 (both dates inclusive)
Record Time	5:00 p.m. on Monday, 23 July 2007
Registration of the Supreme Court order (<i>Notes 3 and 4</i>)	Thursday, 26 July 2007 (Bermuda time)
Effective Date (<i>Notes 3 and 4</i>).	Thursday, 26 July 2007 (Bermuda time)
Lapse of the Options (<i>Notes 3 and 5</i>)	Thursday, 26 July 2007 (Bermuda time)
Announcement on the Effective Date and withdrawal of listing of the Shares on the Company's website and the Stock Exchange's website	Friday, 27 July 2007
Expected withdrawal of the listing of the Shares on the Stock Exchange becomes effective	9:30 a.m. on Friday, 27 July 2007
Cheques for cash payment under the Scheme and the Option Offer to be despatched on or before.	Friday, 3 August 2007

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any such change.

Notes:

1. Forms of proxy should be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and by the times and dates stated above. The forms of proxy in respect of the Court Meeting may be handed to the Chairman of the Court Meeting. Completion and return of a form of proxy for the Court Meeting or the SGM will not preclude a Shareholder from attending the relevant meetings and voting in person. In such event, the returned form of proxy will be deemed to have been revoked. In the case of any beneficial owner of Shares whose Shares are held upon trust by and registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, or in the case of any beneficial owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, your attention is drawn to the paragraph headed "Shareholders who hold their Shares through trust or CCASS" in the "Explanatory Statement" set out on pages 59 to 60 of this document.
2. The Court Meeting and the SGM will both be held at Units 4307-12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong at the time and dates specified above.
3. All references in this document to times and dates are references to Hong Kong times and dates, other than the reference to the expected date for the Supreme Court hearing of the petition to sanction the Scheme, the registration of the Supreme Court order, the Effective Date and the date of lapse of the Options, which are references to the relevant dates in Bermuda.

EXPECTED TIMETABLE

4. The Scheme will become effective when it is sanctioned (with or without modification) by the Supreme Court and an office copy of the Supreme Court order is delivered to the Registrar of Companies in Bermuda for registration and is registered. Registration is expected to take place in the morning on Thursday, 26 July 2007 (Bermuda time) (which will be the evening on Thursday, 26 July 2007 (Hong Kong time)). Proposal Independent Shareholders should note the conditions of the Scheme set out on pages 52 to 54 of this document.

5. Upon the Scheme becoming effective, all Options will, to the extent not having been exercised, lapse and determine.

LETTER FROM THE BOARD



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)*
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

4 June 2007

To the Shareholders and the Option Holders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
SHIMAO INTERNATIONAL HOLDINGS LIMITED
BY PERFECT ZONE INTERNATIONAL LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
AND
CONDITIONAL OFFER TO PAY THE OPTION CANCELLATION PRICE
TO EACH OPTION HOLDER FOR CANCELLING THE SHARE OPTIONS
AND
WITHDRAWAL OF LISTING
AND
CONNECTED TRANSACTION IN RELATION TO
THE EXTENSION OF THE MATURITY DATE OF THE CONVERTIBLE NOTE**

INTRODUCTION

On 19 April 2007, the Directors announced that on 4 April 2007, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act. The Offeror proposed that the Scheme

LETTER FROM THE BOARD

Shares would be cancelled in exchange for HK\$1.050 in cash for each Scheme Share and would make an offer to all the Option Holders for the Option Cancellation Price of HK\$0.46 per Option in consideration for their agreement to cancel their Options in accordance with the Takeovers Code.

On 19 April 2007, the Company entered into the Supplemental Deed with Dynamic Keen, a company wholly and beneficially owned by Mr. Hui, to extend the maturity date of the Convertible Note from 20 June 2007 to 20 June 2008. As a result of the Extension, the Convertible Note will become repayable on 20 June 2008 and the conversion period of the Convertible Note during which the whole or any part of the principal amount of the Convertible Note can be converted into new Shares will be extended to 20 June 2008 as well. Under the Listing Rules, the Extension constitutes a connected transaction for the Company and subject to the approval of the Extension Independent Shareholders at the SGM.

The Offeror has appointed Partners Capital as its financial adviser in connection with the Proposals. The Board comprises seven Directors, three of whom are executive Directors, one of whom is non-executive Director and three of whom are independent non-executive Directors. The Independent Board Committee was formed, comprising Mr. Lee Chack Fan, Mr. Liu Hing Hung and Mr. Zhu Wenhui, who are all independent non-executive Directors and have no interest in the Proposals and the Extension, to advise the Proposal Independent Shareholders in connection with the Proposals and to advise the Extension Independent Shareholders in connection with the Extension. As Mr. Hui, the non-executive Director, is a director of the Offeror, he has not been appointed as member of the Independent Board Committee. Kingsway has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Proposals and the Extension.

The purpose of this document is also to provide you with, among other things, further details of the Proposals, the Extension, the expected timetable, the Explanatory Statement, further information regarding the Company, the recommendations of the Independent Board Committee with respect to the Proposals and the Extension, the letter from Kingsway to the Independent Board Committee and to give you notices of the Court Meeting and the SGM.

THE PROPOSALS

On 4 April 2007, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act.

The Proposal

As at the Latest Practicable Date, the Scheme Shareholders were interested in 209,068,489 Shares, representing approximately 25.26% of the issued share capital of the Company. The Offeror proposes that the Scheme Shares will be cancelled in exchange for HK\$1.050 in cash for each Scheme Share. Under the Scheme as proposed:

- (1) The issued share capital of the Company shall be reduced by cancellation of the Scheme Shares.
- (2) Subject to and forthwith upon the said reduction of capital taking effect, the issued share capital of the Company shall be increased to its former amount by the creation of such number of new Shares as is equal to the number of the Scheme Shares.

LETTER FROM THE BOARD

- (3) Upon the Scheme becoming effective, the Company shall apply the reserve which arises in its books of account as a result of the said reduction of capital in paying up in full at par all the new Shares as created under paragraph (2) above which shall be allotted and issued to the Offeror or its nominees, credited as fully paid.

Comparison of Value

The Share Cancellation Price of HK\$1.050 per Scheme Share represents:

- (a) a premium of 50.00% over the closing price of HK\$0.700 per Share as quoted on the Stock Exchange on 4 April 2007 (being the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Joint Announcement);
- (b) a premium of approximately 49.36% over the average closing price of HK\$0.703 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including 4 April 2007;
- (c) a premium of approximately 45.63% over the average closing price of approximately HK\$0.721 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including 4 April 2007;
- (d) a premium of approximately 44.63% over the average closing price of approximately HK\$0.726 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including 4 April 2007;
- (e) a premium of approximately 38.16% over the audited consolidated net asset value per Share of approximately HK\$0.760 as at 31 December 2006; and
- (f) a premium of 5.00% over the closing price of HK\$1.000 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Option Offer

Pursuant to the rules of the Share Option Scheme, if the Proposal is made, Option Holders shall be entitled to exercise all or any of his Options on or before the Option Exercise Date. Any Shares allotted and issued as a result of the exercise of the Options on or prior to the Option Exercise Date will be subject to and eligible to participate in the Scheme. If the Scheme is approved by the Proposal Independent Shareholders at the Court Meeting, the rights of the Option Holders to exercise their Options will be suspended with effect from the date of the Court Meeting. Upon the Scheme becoming effective, all Options will, to the extent not having been exercised, lapse and determine. If for any reason the Scheme is not approved by the Supreme Court, the rights of the Option Holders to exercise their Options shall be restored in full.

The Offeror will make an offer to all the Option Holders in consideration for their agreement to cancel their Options in accordance with the Takeovers Code. The Option Cancellation Price per Option will be HK\$0.46, being the see through price (relative to the Share Cancellation Price per Scheme Share) for the Options concerned.

The Option Offer is conditional upon the Scheme becoming effective. The Company will not grant any options under the Share Option Scheme during the offer period. The Option Offer commences on Monday, 4 June 2007. The Option Holders may elect to accept the Option Offer on the Option-holder Form of

LETTER FROM THE BOARD

Acceptance and returning it to the Company Secretary of the Company at Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong to be received by not later than 4:00 p.m. on Friday, 20 July 2007 (or such later date and time as may be notified to the Option Holders by the Offeror), to receive the cash payment under the Option Offer.

As at the Announcement Date, there were 32,470,000 outstanding Options granted under the Share Option Scheme. Due to the resignation of an employee and some employees of the Group could not reach the performance goal as required under the terms of grant of the Options, 1,470,000 Options lapsed subsequent to the Announcement Date. As at the Latest Practicable Date, there are 31,000,000 outstanding Options granted under the Share Option Scheme all with exercise price of HK\$0.59 per Share. The holdings of the outstanding Options are summarized as follows:

	Number of Options held
Ms. Hui Mei Mei, Carol (<i>Note 1</i>)	8,270,000
Mr. Tung Chi Shing (<i>Note 2</i>)	8,270,000
Mr. Chan Loo Shya (<i>Note 2</i>)	3,880,000
Other employees	<u>10,580,000</u>
Total	<u><u>31,000,000</u></u>

Notes:

1. Ms. Hui Mei Mei, Carol is an executive Director and daughter of Mr. Hui and is presumed to be acting in concert with the Offeror.
2. Both Mr. Tung Chi Shing and Mr. Chan Loo Shya are executive Directors and are presumed to be acting in concert with the Offeror.

As at the Latest Practicable Date, Ms. Hui Mei Mei, Mr. Tung Chi Shing and Mr. Chan Loo Shya, all being parties presumed to be acting in concert with the Offeror, held an aggregate of 20,420,000 Options. To the extent that any of the 20,420,000 Options held by Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya are exercised and converted into Shares, such Shares will form part of the Scheme Shares but Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya will abstain from voting at the Court Meeting. As at the Latest Practicable Date, Ms. Hui Mei Mei, Carol has confirmed that it is her intention to accept the Option Offer for all her 8,270,000 Options; Mr. Tung Chi Shing has confirmed that it is his intention to accept the Option Offer for all his 8,270,000 Options; and Mr. Chan Loo Shya has confirmed that it is his intention to accept the Option Offer for all his 3,880,000 Options.

Assuming that the Scheme becomes effective on Thursday, 26 July 2007 (Bermuda Time), cheques for cash payment under the Option Offer are expected to be despatched to Option Holders on or before Friday, 3 August 2007. The Letters to Option Holders setting out the terms and conditions of the Option Offer together with the Option-holder Form of Acceptance, which are substantially in the form set out in Appendix IV to this document, are being despatched separately to Option Holders. Option Holders should refer to the section headed “Action to be taken by Option Holders” in this letter.

LETTER FROM THE BOARD

Other securities

As at the Latest Practicable Date, there were (i) 827,639,886 Shares in issue; (ii) 31,000,000 outstanding Options granted under the Share Option Scheme; and (iii) the Convertible Note with an outstanding principal amount of HK\$250,000,000 entitling the holder to convert into a total of 185,185,185 new Shares (based on the initial conversion price of HK\$1.35 per Share under the terms of the Convertible Note).

As the Convertible Note was solely issued to Dynamic Keen, being an investment holding company wholly and beneficially owned by Mr. Hui, which is presumed to be acting in concert with the Offeror, a comparable offer will not be made to the holder of the Convertible Note under the Proposals.

Save as disclosed above, the Company does not have any warrants, options, derivatives, convertible securities or other securities in issue. There is (i) no irrevocable commitment to accept the Proposals which has been received by the Offeror or any parties acting in concert with it; (ii) no arrangements (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror or the Company and which might be material to the Proposals; and (iii) no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposals.

Total consideration and financial resources

On the basis of the Share Cancellation Price, which was arrived at on a commercial basis after taking into account the prevailing market price and the net asset value per Share as described above and with reference to other privatisation transactions in the past few years, the Proposals value the entire issued share capital of the Company as at the Latest Practicable Date at approximately HK\$869.02 million.

Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror. The total amount of cash required for the Proposals will range from (a) approximately HK\$233.78 million (including HK\$219.52 million payable for the Scheme Shares and HK\$14.26 million payable under the Option Offer) assuming no Option is exercised after the Latest Practicable Date but before the Option Exercise Date; to (b) approximately HK\$252.07 million payable for the Scheme Shares assuming all the Options are exercised after the Latest Practicable Date but before the Option Exercise Date. The Offeror intends to finance the cash required for the Proposals from a loan facility of HK\$255 million from China Construction Bank and/or its own cash resources. Partners Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the implementation of the Proposals. The payment of interest on, repayment of or security for any liability under the facility granted to the Offeror will not depend on the business of the Group.

CONDITIONS OF THE PROPOSALS

The Proposal is conditional upon the fulfillment or waiver of, as applicable, the conditions as further described in the section headed "Conditions of the Proposals" in the Explanatory Statement set out on pages 52 to 54 of this document. All conditions will have to be fulfilled or waived, as applicable, on or before 30 September 2007 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Supreme Court may direct), failing which the Proposal will lapse.

The Proposal will become effective and binding on the Company and all the Scheme Shareholders provided that all conditions of the Proposal are fulfilled or waived, as applicable.

LETTER FROM THE BOARD

The Option Offer is subject to and conditional upon the Scheme becoming effective but does not otherwise form part of the Scheme.

REASONS FOR AND BENEFITS OF THE PROPOSAL

The Group has been focusing on strategic development of its international property development and investment business. Although Shimao International Commercial and Exhibition Centre and Holiday Inn Suifenhe developed by the Group in the Municipality of Suifenhe, Heilongjiang Province, the PRC were completed and have commenced operation in August 2006, various measures were imposed by the Russian Government in 2006 and 2007 including, among others, the reduction of the weight of goods which can be carried cross-border by Russians from the PRC to Russia free of tariff and the introduction of the “Ban on Commerce” which has restricted foreigners to conduct retail business within Russia. All these measures affected not only the Sino-Russian cross-border trade but also the leasing of the Group’s shopping malls and hotels. The participation of the Group in the Baltic Pearl Project in St. Petersburg of Russia has also been suspended due to the fact that certain terms on project development were not fulfilled or waived within the extended period. As a result of the provision for the share of land appreciation tax of an associate and fair value adjustment of investment properties, the Group recorded a loss attributable to the Shareholders of HK\$193,824,000 for the year ended 31 December 2006.

The trading volume of the Shares has been thin, resulting in the low liquidity of the Shares. The average daily trading volume for the 6 months up to and including 4 April 2007 (being the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Joint Announcement) was approximately 502,786 Shares which is equivalent to approximately 0.24% of the number of Shares held in public hands (as defined in Rule 8.24 of the Listing Rules) on the Announcement Date. The average daily trading volume of the Shares for the Relevant Period was approximately 935,302 Shares which is equivalent to approximately 0.45% of the number of Shares held in public hands (as defined in Rule 8.24 of the Listing Rules) on the Latest Practicable Date.

Given the low liquidity of the Shares traded on the Stock Exchange and the unsatisfactory price performance of the Shares for more than one year, the Directors are of the opinion that there is currently limited exit potential for the Scheme Shareholders. Given the unsatisfactory financial performance of the Group for the year ended 31 December 2006, the ability of the Company to take advantage of its listing status to raise funds from the equity markets may be limited and any significant improvement in this regard in the foreseeable future is unlikely. Accordingly, it would not be justifiable to maintain the listing status after taking into consideration the costs and management resources associated with the maintenance of the Company’s listing on the main board of the Stock Exchange.

Since the Offeror is already interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date, the Directors believe that it is unlikely that the Scheme Shareholders will receive any other general offer from a third party to acquire the Scheme Shares, as such offer would not succeed without the approval of the Offeror. In addition, Shareholders should note that no discussions have taken place (or are taking place) with any third party regarding the disposal of any of the Shares held by the Offeror and the Offeror has no intention of discontinuing the Group’s businesses.

As the Share Cancellation Price represents a premium of approximately 49.36%, approximately 45.63% and approximately 44.63% over the 10-day, 30-day and 60-day approximate average closing price per Share as detailed above in this document, the Directors believe that the Proposal will provide an opportunity for all Scheme Shareholders to realise their investments in the Company at a price significantly above the prevailing market price of the Shares.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

The Company was incorporated in Bermuda with limited liability. 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.

The following table is a summary of the audited financials of the Group for the two years ended 31 December 2006:

	For the year ended	
	31 December	
	2006	2005
	<i>(audited)</i>	<i>(audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	104,943	13,987
Gross profit	51,497	11,447
Profit/(Loss) before taxation	(218,338)	163,108
Profit/(Loss) after taxation	(193,824)	109,009
Net assets	629,273	747,872

SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposals (assuming no Option is exercised after the Latest Practicable Date but before completion of the Proposals):

	As at the Latest		Upon completion	
	Practicable Date		of the Proposals	
	<i>Number of</i>	<i>Approximate</i>	<i>Number of</i>	<i>Approximate</i>
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
The Offeror and its parties acting in concert <i>(Note)</i>	618,571,397	74.74	827,639,886	100.00
Proposal Independent Shareholders	209,068,489	25.26	—	—
Total	<u>827,639,886</u>	<u>100.00</u>	<u>827,639,886</u>	<u>100.00</u>

LETTER FROM THE BOARD

The following table sets out the shareholding structure of the Company before and immediately upon completion of the Proposals (assuming all Options are exercised after the Latest Practicable Date but before completion of the Proposals):

	Before completion of the Proposals		Upon completion of the Proposals	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
The Offeror (<i>Note</i>)	618,571,397	72.04	858,639,886	100.00
Ms. Hui Mei Mei, Carol, being Offeror's concert party	8,270,000	0.96	—	—
Mr. Tung Chi Shing and Mr. Chan Loo Shya, being Offeror's concert parties	<u>12,150,000</u>	<u>1.42</u>	<u>—</u>	<u>—</u>
The Offeror and its parties acting in concert	638,991,397	74.42	858,639,886	100.00
Proposal Independent Shareholders	<u>219,648,489</u>	<u>25.58</u>	<u>—</u>	<u>—</u>
Total	<u>858,639,886</u>	<u>100.00</u>	<u>858,639,886</u>	<u>100.00</u>

Note: The interests disclosed represent the interest in the Company held by the Offeror, 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 Trust Company (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.

INFORMATION ON THE OFFEROR

The Offeror is 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 Trust Company (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. The board of directors of the Offeror comprises two directors, namely, Mr. Hui and Ms. Hui Mei Mei, Carol. The board of directors of Overseas Investment Group International Limited comprises four directors, namely Mr. Hui, Madam Wang Ching Chao, Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason and the board of directors of Trident Trust Company (B.V.I.) Limited comprises four directors, namely Barry Robert Goodman, Gerald Anthony Toovey, Stephen Bainbridge and Kenneth Hodge. The Offeror is also the controlling Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date.

INTENTIONS REGARDING THE GROUP

It is the intention of the Offeror to retain the Group's existing employees and senior management team and continue the existing business of the Group upon successful privatisation of the Company. The Offeror does not have any intention to introduce any major changes to the existing operating and management structure of the Group or to redeploy any fixed assets of the Group.

LETTER FROM THE BOARD

The Offeror is of the view that given the unsatisfactory financial performance of the Group for the year ended 31 December 2006, the ability of the Company to take advantage of its listing status to raise funds from the equity markets may be limited and any significant improvement in this regard in the foreseeable future is unlikely. Accordingly, the Offeror put forward the Proposals and it would not be justifiable to maintain the listing status after taking into consideration the costs and management resources associated with the maintenance of the Company's listing on the main board of the Stock Exchange.

No Share acquired by the Offeror pursuant to the Proposal will be transferred, charged or pledged to any other persons, and there are no agreement, arrangement or understanding to do the same, nor are there any related charges or pledges which may result in the transfer of voting rights attached to the Shares acquired by the Offeror.

WITHDRAWAL OF THE LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange following the Effective Date. The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Tuesday, 17 July 2007, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:30 a.m. on Friday, 27 July 2007.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

OVERSEAS SHAREHOLDERS AND OPTION HOLDERS

This document will also be despatched to the Shareholders and Option Holders not resident in Hong Kong.

The making of the Proposals to Shareholders and Option Holders not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such Shareholders and Option Holders should inform themselves appropriately and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Shareholders and Option Holders wishing to accept the Proposals to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

EXTENSION OF THE MATURITY DATE OF THE CONVERTIBLE NOTE

Reference is made to the announcement of the Company dated 23 February 2005 and the circular of the Company dated 25 May 2005 in relation to, inter alia, the issue of the Convertible Note.

On 24 June 2005, the Company issued to Dynamic Keen a convertible note of the principal amount of HK\$250,000,000 due on the Maturity Date of 20 June 2007 and convertible into new Shares during the conversion period from 24 June 2006 up to and including the Maturity Date of 20 June 2007. The Convertible Note bears an interest of 1% per annum on the principal amount outstanding from time to time. Up to the Latest Practicable Date, no part of the principal amount of the Convertible Note has been converted into any new Shares. The Company may at any time by giving not less than one calendar month's notice to the holder

LETTER FROM THE BOARD

of the Convertible Note to redeem the Convertible Note prior to the Maturity Date by paying all but not part of the then outstanding principal amount of the Convertible Note together with all accrued interests thereon. If no earlier redemption is made by the Company and no conversion is made by the holder of the Convertible Note, the Company shall on the Maturity Date repay the principal moneys outstanding under the Convertible Note to the holder of the Convertible Note together with all interest accrued thereon up to and including the Maturity Date. Given that the Board intends to sell the luxurious residential project in Hong Kong in a prudent manner to maximise return for the Shareholders and the Company has yet to sell any of its luxurious residential units in Hong Kong, the Directors expect that the Company will not have sufficient cash resources in the event that the Company is required to repay the principal outstanding under the Convertible Note on the Maturity Date. As the Company is in the progress of selling the luxurious residential project in Hong Kong and Dynamic Keen has agreed to extend the Maturity Date, the Directors consider that the short term insufficient cash resources to repay the principal outstanding under the Convertible Note on the Maturity Date will not affect the level of operations of the Company.

On 19 April 2007, the Company and Dynamic Keen, being an investment holding company wholly and beneficially owned by Mr. Hui and thus a connected person of the Company, entered into the Supplemental Deed to extend the Maturity Date from 20 June 2007 to 20 June 2008. As a result of the Extension, the Convertible Note will become repayable on 20 June 2008 and the conversion period of the Convertible Note during which the whole or any part of the principal amount of the Convertible Note can be converted into new Shares will be extended to 20 June 2008 as well. Save for the amendment in the Supplemental Deed, the provisions of the Convertible Note (including the current conversion price of HK\$1.35 per Share) shall continue to remain in full force and effect and are enforceable in accordance with its terms. If the approval for the amendments to the Convertible Note as contemplated under the Supplemental Deed cannot be obtained from the Extension Independent Shareholders on or before the Long Stop Date, such amendments shall not take effect.

Under the Listing Rules, the Extension constitutes a connected transaction for the Company and is subject to the approval of the Extension Independent Shareholders at the SGM. The Directors (excluding the independent non-executive Directors) consider that the Extension is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. The Supplemental Deed is not conditional upon the Proposals becoming effective.

The Company and Dynamic Keen also agreed under the Supplemental Deed that if the aforesaid approval from the Extension Independent Shareholders cannot be obtained on or before the current Maturity Date of 20 June 2007, the obligations of the Company to repay the principal and interests under the Convertible Note shall be suspended for the time being until after the Long Stop Date has passed. If the Company still cannot obtain such approval by the Long Stop Date, the amount (inclusive of both principal and interests) owed by the Company under the Convertible Note as of the current Maturity Date of 20 June 2007 will become a simple debt (the "Debt") no longer convertible into new Shares. The Debt or any part of it will be repayable to Dynamic Keen upon demand at any time after the Long Stop Date and bears interests at the rate of 4% per annum with effect from the day immediately after the current Maturity Date of 20 June 2007. Dynamic Keen also agrees under the Supplemental Deed that it will not demand repayment of the Debt or any part of it within one year after the Long Stop Date unless each of the then independent non-executive Directors is of the view that the Group has sufficient cash resource for repayment of the amount demanded to be repaid and that such repayment will not adversely affect the Group's normal course of operations. The Directors consider that the interest rate for the debt is reasonable since no security will be provided by the Company for the debt and the debt no longer carries the convertible feature of the Convertible Note.

LETTER FROM THE BOARD

Pursuant to Rule 14A.65(4) of the Listing Rules, the Debt which is a financial assistance provided by a connected person for the benefit of the Company on normal commercial terms (or better to the Company) where no security over the assets of the Company is granted in respect of the financial assistance, is exempt from reporting, announcement, and the independent shareholders' approval requirements under the Listing Rules.

THE COURT MEETING AND THE SGM

In accordance with the direction of the Supreme Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). As regards to the requirements under the Takeovers Code (and the Companies Act), such a resolution will only be considered to have been passed if the Scheme has been approved (by way of poll) by a majority in number of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Scheme Shareholders at the Court Meeting provided that the Scheme is also approved (by way of poll) by a majority in number of the Proposal Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Proposal Independent Shareholders at the Court Meeting and that the Scheme is not disapproved (by way of poll) by Proposal Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Proposal Independent Shareholders.

As at the Latest Practicable Date, the Offeror and the parties acting in concert with it held (i) 618,571,397 Shares, representing approximately 74.74% of the issued share capital of the Company; (ii) 20,420,000 outstanding Options; and (iii) a Convertible Note with an outstanding principal amount of HK\$250,000,000. The Offeror and all parties acting in concert with it will be required to abstain from voting on the Scheme at the Court Meeting. To the extent that any of the 20,420,000 Options held by Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya are exercised and converted into Shares, such Shares will form part of the Scheme Shares but Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya will abstain from voting at the Court Meeting.

The SGM will be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing (i) a special resolution to approve the implementation of the Scheme by the Shareholders and (ii) an ordinary resolution to approve the Extension by the Extension Independent Shareholders by way of poll. All Shareholders will be entitled to attend and vote on such special resolution in relation to the Scheme at the SGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the SGM. If the Scheme is approved at the Court Meeting, the Offeror will procure the voting of its beneficial interests in the Company in favour of the special resolution to be proposed at the SGM to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the issued share capital of the Company).

Dynamic Keen and its associates (as defined under the Listing Rules) including, but not limited to, the Offeror will be required to abstain from voting on the Extension at the SGM.

Notices of the Court Meeting and the SGM are set out on pages 139 to 143 of this document. The Court Meeting and the SGM will be held on Wednesday, 27 June 2007 at the respective times specified in such notices at Units 4307-12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL AT THE SGM

The bye-laws of the Company provide that a poll may be demanded by (i) the Chairman of the meeting, (ii) at least three shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting, or (iii) a shareholder or shareholders present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting, or (iv) a shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right. The bye-laws of the Company further provide that a demand by a person as proxy for a member (or, in the case of a member being a corporation, by its duly authorized representative) shall be deemed to be the same as a demand by a member.

ACTION TO BE TAKEN BY THE SHAREHOLDERS

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the SGM are enclosed with this document. Whether or not you are able to attend the Court Meeting and/or the SGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the SGM, in accordance with the respective instructions printed thereon, and to lodge them with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged so as to reach the above address not later than 10:00 a.m. on Monday, 25 June 2007 but if it is not so lodged, it may be handed to the Chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the SGM should be lodged so as to reach the above address not later than 10:30 a.m. on Monday, 25 June 2007. Completion and return of a form of proxy for the Court Meeting or the SGM will not preclude you from attending and voting in person at the relevant meeting. In the event that you attend and vote in person at the relevant meeting, the returned form of proxy will be deemed to have been revoked.

For the purpose of determining (i) the Proposal Independent Shareholders who are entitled to attend and vote at the Court Meeting and (ii) the Shareholders who are entitled to attend and vote at the SGM, the register of the members of the Company will be closed from Friday, 22 June 2007 to Wednesday, 27 June 2007 (both dates inclusive). During such period no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting or the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 21 June 2007.

Further announcements will be made giving details of the results of the meetings, the result of the hearing of the petition to sanction the Scheme by the Supreme Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

LETTER FROM THE BOARD

ACTION TO BE TAKEN BY OPTION HOLDERS

The Letter to Option Holders setting out the terms and conditions of the Option Offer is being despatched on the date of this document separately to each of the Option Holders. Option Holders should refer to those letters, which are substantially in the form set out in Appendix IV to this document. Option Holders should also note the instructions and terms printed on the Option-holder Form of Acceptance despatched to Option Holders in connection with the Option Offer.

Courses of Action available to Option Holders

- (1) Pursuant to the Share Option Scheme, Option Holders may exercise on or before the Option Exercise Date all or any Options which have become exercisable in accordance with the rules of the Share Option Scheme. Any Shares issued as a result of such exercise on or before the Option Exercise Date will be subject to and eligible to participate in the Scheme.
- (2) The Option Offer commences on Monday, 4 June 2007. To the extent any of the Options are not exercised on or before the Option Exercise Date, Option Holders may accept the Option Offer by allowing such unexercised Options to lapse and electing to accept the Option Offer on the Option-holder Form of Acceptance and returning it to the Company Secretary of the Company at Units 4307-12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong to be received by not later than 4:00 p.m. on Friday, 20 July 2007 (or such later date and time as may be notified to the Option Holders by the Offeror), to receive the cash payment under the Option Offer.
- (3) Option Holders can do nothing, or fail to accept the Option Offer in accordance with the terms set out in the Letter to Option Holders, in which case, if the Scheme becomes effective, all those unexercised Options will lapse and determine upon the Scheme becoming effective and be worthless.

Based on the currently expected date of the Court Meeting, the latest date for exercising the Options to qualify for attending and voting at the Court Meeting and the SGM and for entitlements under the Scheme is Wednesday, 20 June 2007.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed "Registration and Payment" in the Explanatory Statement set out on page 61 of this document.

TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Shareholders and Option Holders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Proposals. It is emphasised that none of the Company, the Offeror, Partners Capital, Kingsway or any of their respective directors or any persons involved in the Proposals accepts responsibility for any tax effects or liabilities of any person or persons as a result of the implementation of the Proposals.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the letters from the Independent Board Committee and Kingsway which set out their recommendations in relation to the Proposals and the Extension and the principal factors considered by them in arriving at their recommendations. The letter from the Independent Board Committee is set out on pages 22 to 23 of this document and the letter from Kingsway is set out from pages 24 to 48 of this document.

ADDITIONAL INFORMATION

Your attention is also drawn to, the Explanatory Statement and all the appendices to this document set out on pages 49 to 133 of this document, the scheme of arrangement set out on pages 134 to 138 of this document and the notices of the Court Meeting and the SGM set out on pages 139 to 143 of this document.

Yours faithfully,
On behalf of the Board
Hui Mei Mei, Carol
Deputy Chairman



Shimao International Holdings Limited

世茂國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 649)

4 June 2007

*To the Proposal Independent Shareholders and the Option Holders in relation to the Proposals
and to the Extension Independent Shareholders in relation to the Extension*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
SHIMAO INTERNATIONAL HOLDINGS LIMITED
BY PERFECT ZONE INTERNATIONAL LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
AND
CONDITIONAL OFFER TO PAY THE OPTION CANCELLATION PRICE
TO EACH OPTION HOLDER FOR CANCELLING THE SHARE OPTIONS
AND
WITHDRAWAL OF LISTING
AND
CONNECTED TRANSACTION IN RELATION TO THE EXTENSION OF
THE MATURITY DATE OF THE CONVERTIBLE NOTE**

INTRODUCTION

We refer to this document dated 4 June 2007 jointly issued by the Company and the Offeror of which this letter forms part. Terms defined in this document shall have the same meanings in this letter unless the context otherwise requires.

As the Directors who are independent of the parties to the Proposals and the Extension, we have been appointed as members of the Independent Board Committee to consider the terms of the Proposals and the Extension and to advise you as to whether, in our opinion, the terms of the Proposals and the Extension are fair and reasonable so far as the Proposal Independent Shareholders, the Option Holders and the Extension Independent Shareholders are concerned. Kingsway has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Proposals and the Extension.

We also wish to draw your attention to (i) the letter from the Board; (ii) the letter from Kingsway; and (iii) the additional information set out in the appendices to this document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATIONS

Having considered the terms of the Proposals and the Extension, and having taken into account the opinion of Kingsway and, in particular, the factors, reasons and recommendations as set out in the letter from Kingsway on pages 24 to 48 of this document, we consider that the terms of the Proposals and the Extension are fair and reasonable so far as the Proposal Independent Shareholders, the Option Holders and the Extension Independent Shareholders are concerned, and the Proposals and the Extension are in the interests of the Proposal Independent Shareholders, the Option Holders and the Extension Independent Shareholders. Accordingly, we recommend the Proposal Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the SGM to approve and implement the Scheme and the Extension Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM to approve the Extension. We also recommend the Option Holders to accept the Option Offer if they do not intend to exercise the Options held by them on or prior to the Option Exercise Date.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Lee Chack Fan Liu Hing Hung Zhu Wenhui
Independent non-executive Directors

LETTER FROM KINGSWAY

The following is the full text of the letter of advice from Kingsway Capital Limited, the independent financial adviser to the Independent Board Committee, Proposal Independent Shareholders, Option Holders and Extension Independent Shareholders, prepared for incorporation in this circular.



5/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong

4 June 2007

Dear Sirs

**PROPOSED PRIVATISATION OF SHIMAO INTERNATIONAL HOLDINGS LIMITED
BY PERFECT ZONE INTERNATIONAL LIMITED BY WAY OF A SCHEME OF ARRANGEMENT
AND
CONDITIONAL OFFER TO PAY THE OPTION CANCELLATION PRICE TO EACH OPTION
HOLDER FOR CANCELLING THE SHARE OPTIONS
AND
CONNECTED TRANSACTION IN RELATION TO THE EXTENSION OF THE MATURITY DATE
OF THE CONVERTIBLE NOTE**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee, the Proposal Independent Shareholders, the Option Holders and the Extension Independent Shareholders in connection with the Proposal, the Option Offer and the Extension. Details of the Proposal, the Scheme, the Option Offer and the Extension are contained in the document to the Shareholders and Option Holders dated 4 June 2007 (the "Document") of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Document unless the context otherwise requires.

The Board comprises one non-executive Director, three executive Directors and three independent non-executive Directors. The Independent Board Committee, comprising all the independent non-executive Directors, namely Messrs. Lee Chack Fan, Liu Hing Hung and Zhu Wenhui, who are all independent non-executive Directors and have no interest in the Proposals and the Extension, has been constituted to consider and to make recommendations to the Proposal Independent Shareholders, the Option Holders and the Extension Independent Shareholders in accordance with Rule 2.8 of the Takeovers Code. As Mr. Hui, the non-executive Director, is a director of the Offeror, he has not been appointed as member of the Independent Board Committee. Kingsway has been appointed as the independent financial adviser to advise the Independent Board Committee, the Proposal Independent Shareholders, the Option Holders and the Extension Independent Shareholders in connection with the Proposal, the Option Offer and the Extension.

LETTER FROM KINGSWAY

Kingsway is not associated or connected with the Company, its substantial shareholders or any party acting, or presumed to be acting, in concert with it and, accordingly, is considered eligible to give independent advice on the Proposal, the Option Offer and the Extension. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, its respective substantial shareholders or any party acting, or presumed to be acting, in concert with it.

In formulating our advices and recommendations, we have relied on the information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete as at the date of this letter. We have reviewed the published information on the Company, including its annual reports for the five financial years ended 31 December 2006. We have also reviewed trading performances of the Shares on the Stock Exchange and a property valuation report (the "Property Valuation Report") which was prepared by Savills.

We have assumed that no material facts have been omitted from the information supplied and opinions expressed by them to us in connection with the Proposal, the Scheme, the Option Offer and the Extension. We consider that the information which we have received is sufficient for us to reach our advices and recommendations as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Document were true at the date of the Document and will continue to be true at the date of the Court Meeting and SGM. We have, however, not conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Proposal Independent Shareholders, Option Holders and Extension Independent Shareholders of approving the Proposal, the Option Offer and the Extension since these depend on their individual circumstances. In particular, the Proposal Independent Shareholders, Option Holders and Extension Independent Shareholders who are overseas residents or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL, THE OPTION OFFER AND THE EXTENSION

In summary, the Proposal, the Option Offer and the Extension are described as follows:

- (a) The Offeror proposes that the Scheme Shares will be cancelled in exchange for HK\$1.050 in cash for each Scheme Share. Under the terms of the Scheme, the issued share capital of the Company shall be reduced by cancellation of the Scheme Shares and shall then be increased to its former amount by creation of such number of new Shares as is equal to the number of the Scheme Shares. The Offeror will then be allotted and issued all the new Shares, credited as fully paid.

As at the Latest Practicable Date, the Scheme Shareholders hold in aggregate 209,068,489 Scheme Shares, representing approximately 25.26% of the issued capital of the Company.

- (b) The Offeror will make an offer to all the Option Holders in consideration for their agreement to cancel their Options in accordance with the Takeovers Code. The Option Cancellation Price per Option will be HK\$0.46. The Option Offer is conditional upon the Scheme becoming effective.

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As at the Latest Practicable Date, there are 31,000,000 outstanding Options under the Share Option Scheme with exercise price of HK\$0.59 per Share held by Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing, Mr. Chan Loo Shya and other employees. Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya are executive Directors and are presumed to be acting in concert with the Offeror. To the extent that any of the Options held by the Option Holders are exercised and converted into Shares, such Shares will form part of the Scheme Shares.

- (c) The Company and Dynamic Keen, being an investment holding company wholly and beneficially owned by Mr. Hui and a connected person of the Company, entered into the Supplemental Deed to extend the Maturity Date of the Convertible Note from 20 June 2007 to 20 June 2008 at no additional cost. The Extension is not conditional upon the Proposal, the Scheme and the Option Offer becoming effective. The Company and Dynamic Keen also agreed under the Supplemental Deed that if the approval from the Extension Independent Shareholders cannot be obtained on or before the Maturity Date of 20 June 2007, the obligation of the Company to repay the principal and interests under the Convertible Note shall be suspended for the time being until after the Long Stop Date has passed. If the Company still cannot obtain such approval by the Long Stop Date, the amount owed by the Company under the Convertible Note as of the Maturity Date of 20 June 2007 will become a simple debt and no longer convertible into new Shares. The debt or any part of it will be repayable to Dynamic Keen upon demand at any time after the Long Stop Date and bears interests at rate of 4% per annum with effect from the day immediately after the Maturity Date of 20 June 2007.

The total amount of cash required for the Proposals will range from approximately HK\$233.78 million to approximately HK\$252.07 million. The Offeror intends to finance the cash required for the Proposal and the Option Offer from bank borrowings and/or its own cash resources.

The Scheme is subject to a number of conditions, including but not limited to:

- (a) The approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Scheme Shares that are voted either in person or by proxy by the Scheme Shareholders at the Court Meeting provided that (i) the Scheme is also approved (by way of poll) by a majority in number of the Proposal Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in value of those Scheme Shares that are voted either in person or by proxy by the Proposal Independent Shareholders at the Court Meeting and (ii) the Scheme is not disapproved (by way of poll) by the Proposal Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Proposal Independent Shareholders;
- (b) The passing by Shareholders (other than those who are prohibited from voting under relevant laws, rules or regulations) of a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the issued share capital of the Company) by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the SGM; and
- (c) The sanction of the Scheme (with or without modifications) by the Supreme Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Supreme Court for registration.

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Details of the conditions to which the Scheme is subject are set out in the section headed “Conditions of the Proposals” of the Explanatory Statement contained in the Document.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations with regard to the Proposal and Option Offer, we have taken into account the following principal factors and reasons:

1. Reasons for the Proposal and the Option Offer

The reasons for the Offeror to put forth the Proposal and the Option Offer are set out in the Letter from the Board and the Explanatory Statement included in the Document. The main reasons for the Proposal and the Option Offer are summarized as follows:

- (i) due to various measures imposed by the Russian Government in 2006 and 2007 restricting foreigners to conduct retail business within Russia and cross border trade, the leasing of Shimao International Commercial and Exhibition Centre and Holiday Inn Suifenhe were adversely affected;
- (ii) owing to the fact that certain terms on project development were not fulfilled or waived within the extended period, the Baltic Pearl Project in St. Petersburg, Russia was suspended and no longer take effects;
- (iii) the Group recorded a net loss of HK\$193.82 million for the year ended 31 December 2006 mainly due to the provision for the share of land appreciation tax of an associate and fair value adjustment of investment properties charged to the income statement;
- (iv) a thin trading volume of the Shares has made the liquidity of the Shares relatively low. For the 3-month period from 5 January 2007 up to the last full trading date prior to the suspension of trading in the Shares pending the issue of the Joint Announcement, the average daily closing price for and the average trading volume of the Shares was only approximately HK\$0.726 and 386,644 Shares respectively, representing only approximately 0.18% of the number of Shares in public hands;
- (v) the market capitalisation of the Company was only HK\$579.35 million as at the last full trading date prior to the suspension of trading in the Shares pending the issue of the Joint Announcement which may not be sufficient to retain public interest or interest from professional researchers or analysts or from high quality institutional investors. The Proposal offers the Proposal Independent Shareholders an opportunity to realise their investment with an attractive exit price. Based on the information available to the Directors, the securities of the Group are not being covered continuously by any research analysts in recent years; and
- (vi) the Company is unable to take advantage of its listing status to raise funds from the equity markets and any significant improvement in this regard in the foreseeable future is unlikely. Accordingly, the costs and management resources associated with the maintenance of the Company’s listing on the main board of the Stock Exchange is not justifiable.

The Offeror has indicated that it does not intend to make any significant changes to the existing businesses and management structure of the Group following the Scheme becoming effective.

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The Company will, subject to the approval of the Stock Exchange, withdraw the listing of the Shares on the Stock Exchange. However, in the event that the Proposals are not approved or lapse, the Company will maintain the listing of the Shares on the Stock Exchange.

2. Review of the Group's business

The Offeror became a controlling Shareholder of the Company in 2001 when it acquired approximately 52.04% of the then issued Shares of the Company from Jian Min Associates Limited. After the venture of the Offeror, the Company changed its name to "Shimao China Holdings Limited" and stay focused in property development and investment business under the leadership of Mr. Hui.

During 2002, the Group broadened its asset base with the acquisition and development of four property projects including the Genesis, a luxury residential property in Hong Kong, Shanghai Shimao Lakeside Garden, the rental commercial units of the Dong Fang Hong Shopping Centre in Lanzhou, Gansu Province and Epoch Centre in Beijing. The Group also acquired an office premises in Office Tower, Convention Plaza as its headquarters in Hong Kong.

In 2003, the Shanghai Shimao Lakeside Garden held by an associate of the Company recorded satisfactory sales performance and contributed to the surge in profit of the Group.

In 2004, the Group successfully secured a world-class architectural company for the re-design of the property under the Genesis project. Two new detached houses, being House A and B of No. 21 Severn Road were also developed by the Group. Each house is four storeys high, equipped with its own garden, swimming pool, sheltered parking and a sightseeing elevator covering a total area of over 6,000 square feet, respectively. Other than having a spectacular view of Victoria Harbour, the houses are built with quality materials and equipped with excellent facilities to provide residents with an elegant and supreme living environment.

In 2005, the Company has changed the name of the Company to "Shimao International Holdings Limited" and adopted "世茂國際控股有限公司" as the Chinese name of the Company to further reflect its business horizon and intended geographical coverage.

In 2005, the Group officially launched the House A and B of No. 21 Severn Road, a top-notch luxury residential project in Hong Kong. However, as the Directors intend to maximise the sales value of this residential project, up to the Latest Practicable Date, the Group is still in the process of searching prospective buyers for these residential units. In addition, the Group announced and successfully completed the acquisition of Value Ahead Investments Limited in 2005, the investment holding company of Suifenhe Shimao Development Project, a property development project located along the national boundary between Russia and the PRC. It was dedicated to the development of the Suifenhe Sino-Russian Intertrading Zone development project which is located in the commercial and tourist cross-border region of China and Russia, of which two thirds is within Russian territory. The whole project is made up of several property development projects. Other than residential flats, hotels, offices and retail properties, it also amalgamates warehouses, logistics and entertainment and recreational facilities.

To further develop its overseas business, the Group entered into various agreements in April 2006 to invest in the Baltic Pearl Project, which is a large scale property investment and development project in St. Petersburg, Russia, for a consideration of approximately HK\$232.75 million. 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 metre. However, 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 in 2006.

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Throughout 2006, the Group continuously focused on strategic development of its international property development and investment business. 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 since August 2006.

3. Historical financial performances of the Group

The following table summaries the audited consolidated results of the Group for the last five financial years:

Consolidated profit and loss account of the Company

	Year ended 31 December				
	2006	2005	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	104,943	13,987	6,612	8,334	17,064
Cost of sales	<u>(53,446)</u>	<u>(2,540)</u>	<u>(1,117)</u>	<u>(79)</u>	<u>(13,863)</u>
Gross profit	51,497	11,447	5,495	8,255	3,201
Other income	7,795	1,120	2,154	5,851	6,325
Change in fair value of investment properties	(53,001)	224,642	66,913	—	—
Selling expenses	(16,048)	(10,353)	(1,620)	—	(390)
Administrative expenses	(80,399)	(54,582)	(37,798)	(27,002)	(29,894)
Excess of fair values of net assets acquired over cost of acquisition	—	17,976	—	—	—
Allowances for properties and revaluation deficit of leasehold land and buildings	—	—	—	—	(134,868)
Share of (loss)/profit of an associate	(87,158)	6,012	170,025	192,610	3,101
Finance costs	<u>(41,024)</u>	<u>(33,154)</u>	<u>(3,516)</u>	<u>(4,811)</u>	<u>(7,670)</u>
(Loss)/profit before tax	(218,338)	163,108	201,653	174,903	(160,195)
Income tax credit/(expense)	<u>24,514</u>	<u>(54,099)</u>	<u>(13,850)</u>	<u>(30,629)</u>	<u>(2,117)</u>
(Loss)/profit for the year	<u>(193,824)</u>	<u>109,009</u>	<u>187,803</u>	<u>144,274</u>	<u>(162,312)</u>
Dividends	<u>—</u>	<u>—</u>	<u>41,382</u>	<u>49,658</u>	<u>—</u>

In summary, as illustrated in the table above, during the past five financial years we have reviewed, the Group's performance demonstrated a fluctuating trend which is mainly due to the unsystematic sales of properties and revenue recognition time which is not uncommon for properties development and investment companies. Apart from the vast fluctuation in fair value movement, provisions or revaluation adjustments which has distorted the performance of the Group, the share of results of an associate also contributed to the volatility of the profit and loss of the Group.

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For the year ended 31 December 2002, the Group's joint venture project, Shanghai Shimao Lakeside Garden, which was under construction during the year, was launched to the market in September 2002 and recorded sales revenue of approximately RMB750 million in 2002. The Company would share the profit of this joint venture project in its profit and loss account. However, in compliance with the concerned Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants), a large portion of its profit contribution would not be reflected in the Group's financial statements in 2002 and therefore, the share of profit of an associate was only HK\$3.10 million.

In addition, after reviewing the values and the prospect of the remaining property and technology investment projects in Fuzhou, the Group was not optimistic with their future development and consider these operations inconsistent with the Group's strategy of developing high-end properties. The Group therefore decided to extensively clear off these unsatisfactory businesses. With reference to an independent valuation report, made by an independent professional valuer, the Group has made an one-off provision of approximately HK\$134.87 million for those property projects in Fuzhou. As a result, the Group has recorded a loss of RMB162.31 million for the year.

The Group's share of profit of an associate substantially increased from HK\$3.10 million in 2002 to HK\$192.61 million in 2003. Such increase was mainly attributable to the sales of the units in Shanghai Shimao Lakeside Garden. The total investment cost of the project was around HK\$420 million, representing an impressive margin for the Group.

In 2004, the results of the Group remained positive. The sales of Shanghai Shimao Lakeside Garden, of which most of the units were sold in 2004, were the Group's major revenue generator. The Dong Fang Hong Shopping Centre in Lanzhou of Gansu Province and the 3 units of Epoch Centre Phase II in Beijing owned by the Group continued to contribute a stable rental income to the Group in 2004. 2004 is the best performed year of the Group in the past five years under review and after that, the performance of the Group sank drastically and recorded historical loss.

For the year ended 31st December 2005, the share of profit of an associate of the Group was HK\$6.01 million, representing a decrease of approximately 96.46% as compared with last year. The decrease was mainly because most properties of Shanghai Shimao Lakeside Garden have been sold with the majority of the revenue and profits recognised in 2004. Therefore, contribution from this project and the associate for the year diminished and became insignificant.

Moreover, new project like the Suifenhe Shimao was then still under development and at pre-sale stage. Under the new accounting policies of the Group, even though the property has commenced pre-sale in the second half of 2005, 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 in 2005.

However, 2005 was the first year of adoption of various applicable new accounting standards. Accordingly, changes in fair value of investment properties were required to be recognised in the profit and loss account, resulting in a gain on revaluation of investment properties (net of deferred tax) of HK\$224.64 million.

Finance cost in 2005 which increased substantially stemmed from the amortised cost and interest on promissory notes and convertible note. The climbing interest rate and bank borrowings also contributed to the increase in finance cost.

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Although for the year ended 2005, the Group still recorded a net profit for the year of HK\$109.01 million, we note that this is mainly boosted by the fair value change in investment properties as described above. Netting off this effect, the Group would record a net loss of HK\$115.63 million instead.

The turnover of the Group has increased from HK\$13.99 million in 2005 to HK\$104.94 million in 2006, representing a significant increase by 6.5 times. 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.

Despite a revival in turnover for the year ended 2006, loss attributable to shareholders of the Group in 2006 of HK\$193.82 million was resulted, which included a share of an associate's provision for land appreciation tax of HK\$103.24 million. The Group has made provisions in view of the Notice on Settlement of Land Value-Added Tax for Real Estate Enterprises issued by the State Administration of Taxation on 16 January 2007. In addition, fair value adjustment of investment properties also dropped by HK\$53.00 million. Administrative expenses was HK\$80.40 million in 2006, increased by HK\$25.82 million as a result of the additional administrative expenses associated with Suifenhe Shimao project.

4. Financial positions of the Group

The following table summaries the financial positions of the Group as at 31 December 2006 and 31 December 2005 respectively.

	As at 31 December	
	2006	2005
	HK\$'000	HK\$'000
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	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>

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	As at 31 December	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current Liabilities		
Trade payables	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	272,086	280,901
	<u>716,800</u>	<u>1,028,429</u>
	<u>1,346,073</u>	<u>1,776,301</u>

(a) Assets

(i) Investment properties

The majority balances of the assets represent investment properties. Investment properties mainly include the shop units at Epoch Centre, Dong Fang Hong Shopping Centre, Level 2, Level 3 and part of Level 1 of the Shimao International Commercial and Exhibition Centre in Heilongjiang, the PRC and 50% portion of Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong. The 3 shop units at Epoch Centre in Beijing was acquired in 2002 and serve as long-term investment for the Group bringing in stable rental income. The

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Dong Fang Hong Shopping Centre in Lanzhou, Gansu Province was purchased in July 2002. It is a 3-storey underground commercial building with a gross floor area of about 272,452 square feet and also serves as a long-term investment project of the Group. Due to the trend of the regional property market, the rental income from the investment properties has increased steadily in recent years.

(ii) Property, plant and equipment

Property, plant and equipment mainly includes the hotel property in Suifenhe Shimao and the 50% portion of the office premises in Office Tower of the Convention Plaza.

(iii) Prepaid lease payments

As a second largest item in total assets of the Company, prepaid lease payments mainly consist of leasehold land in Hong Kong and leasehold land in the PRC.

(iv) Properties held for sale

Properties held for sale include the luxurious residential project situated at No. 21 Severn Road located in the upmarket residential district of Severn Road, the Peak. The two four-storey detached houses offer a total floor area of approximately 12,000 square feet. The Group is actively identifying prospective purchasers.

(b) Liabilities

(i) Other payables

Other payables mainly include the payables and accruals in relation to the Suifenhe Shimao project which increased as at the year end of 2006 when the development of the project is completed and payment on project cost became due and payable.

(ii) Amount due to ultimate holding company

The surge in amounts due to ultimate holding company, Perfect Zone, was due to the repayment of bank borrowings by Perfect Zone to ease the financial burden and working capital position of the Group.

(iii) Secured bank borrowings

As at 31 December 2006, the Group had bank borrowings of approximately HK\$465.94 million. Average interest rate of the bank loans ranged from 5.4% to 6.2% per annum.

5. Relationship with the Offeror

The Offeror, Perfect Zone International Limited, is 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 Trust Company (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.

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In 2001, it acquired approximately 52.04% of the then issued Shares of the Company from Jian Min Associates Limited and became a controlling Shareholder.

The Offeror is currently the controlling Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date.

6. Prospects of the Group

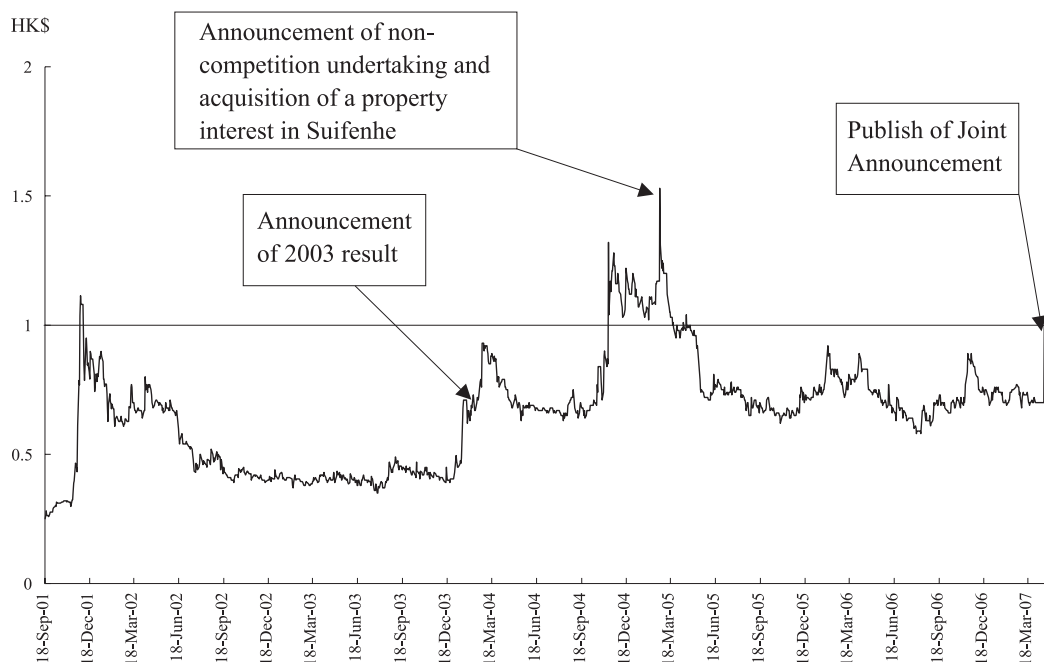
After a redirection in the business focus of the Group to a wider geographical areas outside the PRC in 2005, new property development projects announced by the Group or held by the Group include Suifenhe Shimao Development Project and the Baltic Pearl Project only. As stated in the 2006 annual report of the Company, the international property development and investment businesses of the Group encountered stiff challenges. The Suifenhe-Pogranichny Cross-border Trade Zone has faced a “Ban on Commerce” and various adverse measures imposed by the Russian Government that render the occupancy of hotels and shopping malls of the Group in the area very low; the suspension of the Baltic Pearl Project also sends the Group’s hope in new projects to abyss. While there are luxurious residential properties held by the Group for sale despite the abovementioned unfavourable events, there is no guarantee that a satisfactory price could be reached with buyers or that the sale of these properties could materialise in the short term. Most importantly, the core business of the Group could be viewed as shrinking and despite efforts had been asserted by the management to row out new business plans, the result was not as promising as expected. We consider that without any concrete plan and turnaround in the situation of the existing property development projects of the Group, there is a lack of promising sentiment to the performance of the Group going forward, especially for the business of the Group which would normally require lead time in developing property projects into good states suitable for sale or lease purposes.

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7. Trading performance of the Shares

(a) Share price performance

The chart below illustrates the daily closing prices per Share from 18 September 2001 up to and including the Latest Practicable Date.



Source: Bloomberg

Since the Offeror announced its acquisition of interests in Dong Jian Tech.Com Holdings Limited (the former name of the Company at that time) to be the controlling Shareholder, the closing prices of the Shares ranged from HK\$0.259 to HK\$1.53 per Share.

On 18 September 2001, the Company, as it then was known as Dong Jian Tech.Com Holdings Limited, announced that the then controlling shareholder, Jian Min Associates Limited, entered into a sale and purchase agreement to sell its entire equity interests in the Company to the Offeror. The announcement stimulated the Share price and it rose significantly and closed at HK\$1.036 on 28 November 2001.

The Share price has increased from HK\$0.39 on 15 December 2003 to HK\$0.93 on 27 February 2004 by 138.46% as the market was expecting the Company would achieve an impressive result for the year 2003 due to its Shanghai Lakeside project. The Company announced on 26 February 2004 that it had turned around from its net loss position of HK\$162.31 million in 2002 to attain a profit of HK\$144.27 million in 2003.

On 26 October 2004, the Company announced that it had been in negotiation with Mr. Hui in relation to the acquisition of a property interest in Suifenhe, Heilongjiang, the PRC. The news stimulated the Share price and it went up until it reached its historical peak of HK\$1.53 on 24 February 2005.

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On 23 February 2005, the Company announced that it entered into a non-competition undertaking with Mr. Hui and the relevant parties that Mr. Hui and the relevant parties shall not carry on any property business outside the PRC and the Group will not engage in the property development and investment business in the PRC, subject to exceptions. The Share price dropped significantly to HK\$0.620 on 28 October 2005.

Sine then, the Share price fluctuated within the range between HK\$0.580 and HK\$0.890 up to 4 April 2007 (being the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Joint Announcement).

The Share Cancellation Price of HK\$1.050 per Scheme Share represents:

- (i) a premium of 50.00% over the closing price of HK\$0.700 per Share as quoted on the Stock Exchange on 4 April 2007 (being the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Joint Announcement);
- (ii) a premium of approximately 49.36% over the average closing price of HK\$0.703 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including 4 April 2007;
- (iii) a premium of approximately 45.63% over the average closing price of HK\$0.721 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including 4 April 2007;
- (iv) a premium of approximately 44.63% over the average closing price of HK\$0.726 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including 4 April 2007;
- (v) a premium of approximately 38.16% over the audited consolidated net asset value per Share of HK\$0.760 as at 31 December 2006; and
- (vi) a premium of approximately 5.00% over the closing price of HK\$1.000 per Share based on the closing prices as quoted on the Stock Exchange on the Latest Practicable Date.

The Share Cancellation Price represents significant premiums over the Share price over the abovementioned dates and the Share price has not reached the Share Cancellation Price for more than two years before the Announcement Date.

The Share price rose from the closing price of HK\$0.700 on the last full trading date prior to the suspension of trading in the Shares pending the issue of the Joint Announcement to HK\$1.000 on 20 April 2007, being the first trading day on which the Shares were traded after the publication of the Joint Announcement and varied within a narrow range between HK\$0.980 and HK\$1.010 thereafter up to the Latest Practicable Date. Given the Shares has been traded at considerable discount to the Share Cancellation Price since the acquisition of the controlling stake by the Offeror and only surged to a level close to HK\$1.000 after the Joint Announcement was published, we consider that the current price of the Shares is unlikely to sustain if the Proposal is withdrawn or becomes lapsed.

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(b) Trading volume of the Shares

The following table sets out the total monthly trading volume from end of June 2005 until the month preceding the Latest Practicable Date:

	Totally monthly trading volume of the Shares (million Shares) <i>(Note 1)</i>	% of the total monthly trading volume to the total issued Shares <i>(Note 2)</i>	% of total monthly trading volume to public float <i>(Note 3)</i>
2005			
June	14.77	1.78%	7.06%
July	9.68	1.17%	4.63%
August	5.64	0.68%	2.70%
September	9.23	1.12%	4.41%
October	3.71	0.45%	1.77%
November	3.38	0.41%	1.62%
December	12.86	1.55%	6.15%
2006			
January	9.08	1.10%	4.34%
February	17.59	2.13%	8.41%
March	22.37	2.70%	10.70%
April	17.66	2.13%	8.45%
May	7.19	0.87%	3.44%
June	10.59	1.28%	5.07%
July	2.07	0.25%	0.99%
August	5.56	0.67%	2.66%
September	12.10	1.46%	5.79%
October	5.98	0.72%	2.86%
November	20.86	2.52%	9.98%
December	10.54	1.27%	5.04%
2007			
January	9.40	1.14%	4.50%
February	6.34	0.77%	3.03%
March	9.39	1.13%	4.49%
April	48.44	5.85%	23.17%
May	28.30	3.42%	13.54%

Notes:

1. *Source: Bloomberg*
2. Based on the number of Shares in issue at the end of each month provided by the Company.
3. The public float is calculated based on the number of Shares in issue as set out in note 2 above excluding the Shares held by the Offeror and its parties acting in concert.

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As illustrated in the above table, the percentage of total monthly trading volume to public float was thin across the review period. Given the relatively thin trading volume of the Shares, it may be difficult for Shareholders with significant holdings in the Shares to realize their investment in the market without putting pressure on the market price of the Shares. In this regard, we concur the Directors' view that the Proposal represents an opportunity for the Proposal Independent Shareholders to realize their investments.

8. Comparison with comparable companies

We have selected companies comparable to the Company based on the following criteria:

- (i) listed on the Stock Exchange;
- (ii) principally engaged in property development and investment outside PRC (with at least 70% revenue contributed by these businesses for the latest financial year);
- (iii) with a market capitalisation similar to the Group (from HK\$600 million to HK\$1,200 million);
and
- (iv) not suspended from trading of its shares.

After reviewing all the companies listed on the Stock Exchange, to the best of our knowledge, we have selected the following comparable companies (the "Comparable Companies"), all being companies falling within the criteria set out above:

- (i) Soundwill Holdings Ltd (stock code: 878)
- (ii) Dan Form Holdings Co Ltd (stock code: 271)
- (iii) Chi Cheung Investment Co Ltd (stock code: 112)
- (iv) Tai Sang Land Development (stock code: 89)
- (v) Winfoong International Ltd (stock code: 63)

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We set out below certain information of the Comparable Companies and the Company for comparison and illustration purposes:

	Market capitalisation as at the Latest Practicable Date <i>(HK\$m)</i>	Dividend yield <i>(%)</i>	Closing price per share as at the Latest Practicable Date <i>(HK\$)</i>	Consolidated NAV per share <i>(HK\$)</i>	Closing price over/(to) consolidated NAV per share ratio	Closing price over/(to) earnings per share ratio	Closing price over/(to) sales per share ratio
Soundwill Holdings Ltd	980.31	1.14	4.40	9.72	0.45	2.32	4.96
Dan Form Holdings Co Ltd	1,112.89	N/A	0.98	1.61	0.61	20.85	38.40
Chi Cheung Investment Co Ltd	897.73	N/A	2.65	2.25	1.18	9.52	307.86
Tai Sang Land Development	1,006.84	5.14	3.50	7.56	0.46	3.26	5.73
Winfoong International Ltd	1,044.69	N/A	0.70	1.13	0.62	6.94	39.92
The Company	827.64	N/A	1.00	0.76	1.32	N/A	7.89

Source: Bloomberg

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(a) Comparison of P/E multiples

Since the Company has recorded a net loss for the year in 2006, we consider that it is not meaningful to compare the latest P/E multiples with Comparable Companies. For the information of the Scheme Shareholders, Scheme Shareholders should note that all the Comparable Companies recorded profits for their latest financial year.

(b) Comparison of closing price to consolidated NAV per share

Save for Chi Cheung Investment and the Company, the remaining Comparable Companies were traded at significant discounts to their respective NAVs.

The Company had the highest closing price to consolidated NAV per share ratio of 1.30 among the Comparable Companies. It was due to its substantial increase in Share price from HK\$0.700 on 4 April 2007 to HK\$1.000 on 20 April 2007 by 42.86% which is perceived as a reflection of the public sentiment to the Joint Announcement and the Proposals. If the closing price of HK\$0.700 per Share on the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Joint Announcement is used to calculate the above ratio, it would be 0.92, which is more in line with the average of the Comparable Companies. In our opinion, the Company's closing price to consolidated NAV per share ratio has already reflected the market impact of the Joint Announcement and it was interpreted as a positive news to the Company.

In the absence of the Proposals and having taken into consideration the historical pattern, in our opinion, it is unlikely that the price of the Share will trade at a significant premium over the underlying NAV.

(c) Comparison of closing price to sales per share

As an alternative to the P/E multiples, we sort to compare the closing price to sales per share ratio for the Comparable Companies as at the Latest Practicable Date which ranged from 4.96 to 307.86 and that for the Company of 7.89. In view of the business nature of property development and investment industry, the sales figure of a particular year could not reflect the performance of a company, as the quantity of properties completed by a property developer is likely to fluctuate every year. Scheme Shareholders should note that there is no conclusive comparison drawn on the price to sales per share comparison and the comparison of such is only for illustrative purpose.

9. Adjusted net assets value of the Company

We refer to the Property Valuation Report, in which valuation of properties held and occupied by the Group in Hong Kong, properties held by the Group for investment in the PRC, and property held by the Group for future development in the PRC were appraised. Further to the Property Valuation Report, it gave rise to revaluation surplus and deficit, after taking into account of an effect of deferred tax respectively, which the Group is deemed to account for as at 31 March 2007. The Directors considered revaluation surplus amounting to approximately HK\$517.48 million and revaluation deficit amounting to approximately HK\$65.06 million respectively. The net positive financial effect to net assets value of the Company on consolidated basis due to revaluation of properties, in the opinion of the Directors, amounts to approximately HK\$452.42 million.

The net revaluation surplus was mainly attributable to the revaluation surplus of the properties situated at No. 21 Severn Road held by the Group for sale which amounted to approximately HK\$199.95 million and that of the Genesis held by the Group for corporate usage purpose which amounted to approximately

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HK\$188.44 million. The Directors confirm that according to the relevant Hong Kong Financial Reporting Standards and accounting policies adopted by the Company, only investment properties of the Group are required to be stated at fair value in the financial statements and thus the abovementioned material revaluation surplus were not reflected in the 2006 annual report of the Company.

Taking into account of net positive financial effect of revaluation, adjusted net assets value of the Company, based on net assets value stated in audited financial report as at 31 December 2006 of approximately HK\$629.27 million, is approximately HK\$1,081.69 million. Based on the number of Shares as at the Latest Practicable Date of 827,639,886, adjusted net assets value per Share is approximately HK\$1.31 on non-diluted basis. Assuming that all the Options held by Option Holders are exercised, the number of Shares including new Shares to be issued will amount to 858,639,886. Adjusted net assets value per Share, on fully diluted basis by assuming that all Options are exercised, amounts to approximately HK\$1.26.

The Share Cancellation Price of HK\$1.050, is at discount to adjusted net assets value per Share by about 20% and 17% on non-diluted and fully diluted basis respectively.

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10. Recent Privatisations

For additional reference, we have identified from publicly available sources (*Note 1*) all privatisation proposals, to the best of our knowledge, by way of scheme of arrangement on the main board of the Stock Exchange announced since 1 January 2006 up to and including the Latest Practicable Date (the “Precedent Privatisations”). Save for ABC Communication (Holdings) Limited which is still pending approval/acceptance by the independent shareholders, the Precedent Privatisations are already approved as at the Latest Practicable Date. We have reviewed the premiums represented by the acquisition price over the net asset value per share and the average daily closing price for various periods of the Precedent Privatisations. We have extracted relevant information from the respective privatisation document in regard of the Precedent Privatisations. The following is a summary of the Precedent Privatisations:

	Principal activities	Date of announcement	Cancellation price (HK\$)	Cancellation earnings per share (Note 2)	Market capitalisation as at last trading date prior to the date of announcement (HK\$M) (Note 3)	Premium over/(discount to)		NAV per share (HK\$) (Note 4)	Premium over/(discount to) NAV (%)		
						Last full trading day	Last 10-day average trading price			Last 30-day average trading price	
ABC Communication (Holdings) Ltd	Provision of financial quotation, securities trading system licensing and sale of related products	16 April 2007	0.58	20.71	226	0.5	0.5	0.4	0.6	6.8	
St Honore Holdings Ltd	Manufacturing of bakery products and operation of retail chain of bakeries	17 November 2006	2.95	15.28	439	43.9	56.9	58.6	1.09	170.6	
Winsor Industrial Corporation Ltd	Manufacturing and trading of textiles and clothing	4 September 2006	5.50	23.91	961	48.6	64.7	70.8	5.43	1.3	
Egana Jewellery and Pearls Ltd	Design, distribution and trading of jewelry products	10 July 2006	1.80	8.88	712	13.9	15.4	23.3	1.57	14.6	
SNP Leefung Holdings Ltd	Printing of books and magazines as well as packaging products	28 June 2006	1.68	10.82	529	60.0	N/A (Note 6)	N/A (Note 6)	1.5	12.0	
China National Aviation Company Ltd	Operating of scheduled airline services and provision of aviation related services	8 June 2006	2.80	41.42	6,526	N/A (Note 6)	N/A (Note 6)	N/A (Note 6)	1.7	65.9	
China Resources Cement Holdings Ltd (Note 5)	Sale of concrete, mortars, shotcrete and precast concrete products mainly in Hong Kong	31 March 2006	2.45	74.24	691	35.4	N/A (Note 6)	65.5	2.52	(2.8)	
Asia Aluminum Holdings Ltd	Manufacturing and sale of aluminium extrusion products, aluminium panels and stainless steel products	16 March 2006	1.45	27.94	3,733	26.1	N/A (Note 6)	99.4	0.92	58.0	
						High	60.0	64.7	99.4	5.4	170.6
						Low	0.5	0.5	0.4	0.6	(2.8)
						Average premium	32.7	31.6	47.3	1.8	68.5
						Average discount	—	—	—	—	(2.8)
The Company	Property development and investment	19 April 2007	1.05	N/A	579	50.0	49.4	45.6	0.8	38.2	

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- Note 1: Source: Stock Exchange website.
- Note 2: The earnings per share are extracted from the latest audited financial statements when the relevant announcements were made.
- Note 3: The computation of market capitalisation is based on their total shares outstanding as indicated in the relevant announcements and the closing price at the last trading date prior to date of announcement.
- Note 4: NAV per share is based on latest published financial information of the respective companies available prior to the respective privatisation announcements.
- Note 5: The NAV used to calculate NAV per share of China Resources Cement Holdings Ltd is adjusted for any dividends paid between the date of the financial information and the date of the respective privatisation announcement.
- Note 6: Such figures are not provided in the circular of the relevant privatisation.

As shown in the table above, the premiums represented by the Share Cancellation Price over the average daily closing price of various periods are generally higher than the Precedent Privatisations except for the premium over last 30-day average trading price. On the other hand, the premium represented by the Share Cancellation Price over the NAV per share is below the average but is within the range of premium/discount represented by the Precedent Privatisations. Accordingly, we consider the Share Cancellation Price is therefore fair and reasonable so far as the Proposal Independent Shareholders are concerned.

DISCUSSION AND ANALYSIS

The Proposal

In the past five financial years, the Company's profit earner, Shanghai Shimao Lakeside Garden, was sold out and profits were recognised in 2003, 2004 and 2005 respectively.

Since 2006, in the opinion of the Directors, about 63% value of properties stated on the consolidated balance sheet as at 31 December 2006, including investment properties, properties for own use, properties held for sale and properties held for development, was attributable to projects located in Suifenhe, Heilongjiang Province, the PRC. According to the Directors, the projects in Suifenhe have been adversely affected by policies of the Russian Government, which restricts foreigners from conducting retail business within Russia and cross border trade. In addition, the growth of the Company was further limited as a result of suspension of the Baltic Pearl Project in St. Petersburg, Russia.

Another 26% value of all the properties interests stated on the consolidated balance sheet as at 31 December 2006 was attributable to properties located in Hong Kong and the remaining portion of the properties are situated in other cities in the PRC. The luxurious residential project in Hong Kong is currently on sale. Based on the main asset allocation of the Group, we consider that the risk of Company's business, after sale of properties in Hong Kong, will be high due to a concentration of the Company's resources in projects in Suifenhe.

The Offeror is currently controlling 74.74% equity interest in the Company as at the Latest Practicable Date. In the opinion of the Directors, it is unlikely that the Scheme Shareholders will receive any other general offer from a third party to acquire the Scheme Shares, as such offer would not succeed without the approval of the Offeror. In addition, there was no discussion having taken place or currently taking place between any party and the Offeror regarding the disposal of any of its shareholding in the Company.

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The Share Cancellation Price represents (i) 50% premium over closing price per Share as quoted on the Stock Exchange on the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Joint Announcement (the “Last Trading Day”); (ii) 49.36% premium over average closing price for the period of 10 trading days up to the Last Trading Day; (iii) 45.63% premium over average closing price for the period of 30 trading days up to the Last Trading Day; (iv) 44.63% over the average closing price for the period of 60 trading days up to the Last Trading Day and (v) 5.00% premium over the closing price as quoted on the Stock Exchange on the Latest Practicable Date.

During the period from June 2005 to May 2007, i.e. 24 trading months, average monthly trading volume of the Shares was around 12.61 million Shares. Excluding the trading volume in April 2007 in which the Joint Announcement was made, average monthly trading volume of the Shares was 11.06 million Shares during the same period. Percentage of total monthly trading volume relative to total issued Shares on average was 1.52% and 1.34% respectively for the periods of 24 months and 23 months since June 2005 (i.e. excluding data of trading in April 2007). Percentage of total monthly trading volume relative to public float on average was 6.03% and 5.29% respectively for the periods of 24 months and 23 months since June 2005. The Company suffered a problem of thin trading in last two consecutive years prior to the date of the Joint Announcement.

The Offeror is offering to purchase all Shares held by the Scheme Shareholders at HK\$1.050, representing a 20% and 17% discount to adjusted net assets value per Share as at 31 March 2007 on non-diluted and fully diluted basis respectively, in view of the abovementioned risk and unfavourable situations encountered by the Company.

Closing price of the Share increased by 42.86% from HK\$0.70 on 4 April 2007 to HK\$1.00 on 20 April 2007 as a result of the Joint Announcement. Proposal Independent Shareholders should note that the Proposal is subject to various condition precedents. In the event that the Proposal is not approved or the conditions cannot be fulfilled, the Proposal will lapse and the Share price may fall back to the level before the Joint Announcement was made.

Taking into account of the above factors, we advise those Proposal Independent Shareholders who would like to cash out on their investment at a reasonable price to vote in favour of the Proposal at the Court Meeting and the SGM.

The Option Offer

As stated in the Letter from the Board in the Document, pursuant to the rules of the Share Option Scheme, if the Share Proposal is made, Option Holders shall be entitled to exercise all or any of his Options on or before the Option Exercise Date. Any Shares thus allotted and issued as a result of the exercise of the Options on or prior to the Option Exercise Date will be subject to and eligible to participate in the Scheme. Pursuant to the terms of the Option Offer, the Offeror is offering a cash amount of HK\$0.46 per Option to the Option Holders for the cancellation of their Options. The Option Cancellation Price has been determined as being the see-through price in accordance with the Takeovers Code on the basis of the Share Cancellation Price of HK\$1.050 per Scheme Share and the exercise price of HK\$0.59 for each Share under the terms of the Options. As stated in the Letter from the Board in the Document, there were in total 31,000,000 outstanding Options as at the Latest Practicable Date.

Based on the closing price of HK\$1.000 per Share as at the Latest Practicable Date and without taking into account the time value and any transaction costs, the intrinsic value of the Options as at the Latest Practicable Date was equivalent to HK\$0.41 per Option. On this basis, the Option Cancellation Price of HK\$0.46 for each Option appears to be favourable to the Option Holders. In view of the fact that the Shares will not continue to be listed on the Stock Exchange as a result of the possible privatisation of the Company,

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we consider that the prevailing market price of the Shares should be the dominant factor in determining the value of the Options. Accordingly, we consider that the Option Cancellation Price of HK\$0.46 per Option under the Option Offer is fair and reasonable as far as the Option Holders are concerned.

THE EXTENSION

Background and terms of the Convertible Note

The Convertible Note was issued to Dynamic Keen on 24 June 2005 as part of the consideration for the acquisition of the Suifenhe Shimao Development Project as disclosed in the circular of the Company dated 25 May 2005. Dynamic Keen is an investment holding company wholly and beneficially owned by Mr. Hui and thus a connected person of the Company.

According to the terms of the Convertible Note, the Convertible Note is convertible into new Shares during the conversion period from 24 June 2006 up to and including the Maturity Date of 20 June 2007 at a conversion price of HK\$1.35 per Share. The Convertible Note bears an interest of 1% per annum on the principal amount outstanding from time to time. As at the Latest Practicable Date, no part of the principal amount of the Convertible Note has been converted into any new Shares. The Company may at any time by giving not less than one calendar month's notice to the holder of the Convertible Note to redeem the Convertible Note prior to the Maturity Date by paying all but not part of the then outstanding principal amount of the Convertible Note together with all accrued interests thereon. If no earlier redemption is made by the Company and no conversion is made by the holder of the Convertible Note, the Company shall on the Maturity Date repay the principal moneys outstanding under the Convertible Note to the holder of the Convertible Note together with all interest accrued thereon up to and including the Maturity Date. As stated in the Letter from the Board, given that the Board intends to sell the luxurious residential project in Hong Kong in a prudent manner to maximize return for the Shareholders and the Company has yet to sell any of its luxurious residential units in Hong Kong, the Directors expect that the Company will not have sufficient cash resources in the event that the Company is required to repay the principal outstanding under the Convertible Note on the Maturity Date.

The Supplemental Deed to extend the Maturity Date

On 19 April 2007, the Company and Dynamic Keen, being an investment holding company wholly and beneficially owned by Mr. Hui and thus a connected person of the Company, entered into the Supplemental Deed to extend the Maturity Date from 20 June 2007 to 20 June 2008. As a result of the Extension, the Convertible Note will become repayable on 20 June 2008 and the conversion period of the Convertible Note during which the whole or any part of the principal amount of the Convertible Note can be converted into new Shares will be extended to 20 June 2008 as well. Save for the amendment in the Supplemental Deed, the provisions of the Convertible Note (including the current conversion price of HK\$1.35 per Share) shall continue to remain in full force and effect and are enforceable in accordance with its terms. If the approval for the amendments to the Convertible Note as contemplated under the Supplemental Deed cannot be obtained from the Extension Independent Shareholders on or before the Long Stop Date, such amendments shall not take effect. The Supplemental Deed is not conditional upon the Proposals becoming effective.

If the aforesaid approval is not obtained from the Extension Independent Shareholders on or before the current Maturity Date of 20 June 2007, the obligations of the Company to repay the principal and interests under the Convertible Note shall be suspended for the time being until after the Long Stop Date has passed. If the Company still cannot obtain such approval by the Long Stop Date, the amount (inclusive of both principal and interests) owed by the Company under the Convertible Note as of the current Maturity Date will become a simple debt (the "Debt") with no conversion element. The Debt or any part of it will be repayable

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to Dynamic Keen upon demand at any time after the Long Stop Date and bears interests at the rate of 4% per annum with effect from the day immediately after the current Maturity Date of 20 June 2007. Dynamic Keen also agrees under the Supplemental Deed that it will not demand repayment of the Debt or any part of it within one year after the Long Stop Date unless each of the then independent non-executive Directors is of the view that the Group has sufficient cash resource for repayment of the amount demanded to be repaid and that such repayment will not adversely affect the Group's normal course of operations. The Directors consider that the interest rate for the debt is reasonable since no security will be provided by the Company for the debt and the debt no longer carries the convertible feature of the Convertible Note.

Discussion and analysis

The term of the Convertible Note is two years and the conversion period only commences after the first anniversary of issue of the Convertible Note. Given that the historical market price of the Shares has not been above the conversion price of HK\$1.35 per Share during the commencement of the conversion period up to the Latest Practicable Date, the likelihood of conversion of the Convertible Note by Dynamic Keen is remote.

We have assessed various possible alternative financing methods for redemption of the Convertible Note and note the followings:

- (i) based on the financial statements in the 2006 annual report of the Company, the cash and bank balances of the Group as at 31 December 2006 amounted to only approximately HK\$48.80 million, which is not adequate for the full redemption;
- (ii) assuming there are available bank borrowings in Hong Kong for the Company to refinance the redemption of the Convertible Note, it is envisaged that such borrowings would not bear an interest rate comparable to the 1% interest per annum of the Convertible Note. Moreover, this lower interest rate is a fixed rate and would not be subject to the volatility of general prime rate. Furthermore, according to the 2006 annual report of the Company, the annual variable interest rate charged by its existing borrowing banks ranged from approximately 5.4% to 6.2% in 2006, if the Convertible Note become the Debt eventually, the 4% interest per annum on the Debt is still lower than the prevailing borrowing rate of the Group; and
- (iii) in view of the current market price of the Shares and a general market practice that issue price of the Shares under other fund raising activities such as placing/rights issue/open offer usually set at a discount to the prevailing market price, any capital funding raising exercise by means of issue of new Shares is expected to cause significant dilution to the shareholding of existing Shareholders which would not be favourable to the Extension Independent Shareholders.

In light of the above, alternative financing would not appear to be a more favourable option to the Extension Independent Shareholders when considering the arrangement of the Convertible Note.

We also note that under the terms of the Convertible Note and the Supplemental Deed, early redemption is only at the option of the Company and this allows flexibility on the side of the Company to control the redemption pace when the Extension is approved by the Extension Independent Shareholders.

As the Company is in the process of selling the luxurious residential project in Hong Kong and Dynamic Keen has agreed to extend the Maturity Date, we concur with the Directors' view that the short term insufficient cash resources to repay the principal outstanding under the Convertible Note on the Maturity Date will not affect the level of operations of the Company.

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If the Extension is not approved by the Extension Independent Shareholders eventually, under the terms of the Supplemental Deed, all outstanding principal and interests under the Convertible Note shall become a simple debt with no conversion element due by the Company and this will not alter the net asset value nor the gearing level of the Group. Extension Independent Shareholders should also note that pursuant to Rule 14A.65(4) of the Listing Rules, the Debt which is a financial assistance provided by a connected person for the benefit of the Company on normal commercial terms (or better to the Company) where no security over the assets of the Company is granted in respect of the financial assistance, is exempt from reporting, announcement, and the independent shareholders' approval requirements under the Listing Rules.

After considering the above, we consider the Extension is fair and reasonable, is in the interests of the Company and the Extension Independent Shareholders as a whole and on normal commercial terms in the ordinary and usual course of business of the Group.

OPINION AND RECOMMENDATION

We draw your attention to the following key factors, which should be read in conjunction with and considered in the context of the full text of this letter in arriving at our advice and recommendation:

- the reasons of the Proposal and Option Offer, in particular the operating environment and unfavourable condition of key projects of the Group;
- the historical trading performance of the Company and persistent low levels of liquidity in the Shares;
- the significant premiums of the Share Cancellation Price over the closing price on the last trading day prior to the Announcement Date, the average daily closing price of various periods and the audited consolidated NAV per Share as at the latest year end;
- the prospects of the Group appear to be less promising going forward and the Proposal and Option Offer provide an opportunity for the Proposal Independent Shareholders and the Option Holders to exit and realise their investments in the Company, if they so wish;
- the various premiums represented by the Share Cancellation Price over the average daily closing price of various periods are generally higher than the Precedent Privatisations and the premium represented by the Share Cancellation Price over the NAV per share is within the range of premium/discount represented by the Precedent Privatisations;
- as the Offeror and parties acting in concert with it hold an aggregate beneficial ownership of approximately 74.74% of the issued share capital of the Company, if any third party were to make a competing offer for the Shares, such competing offer would not succeed without the acceptance of the Offeror and parties acting in concert with it;
- stated intention of the Offeror to maintain the listing of the Shares on the Stock Exchange should the Scheme fail; and
- the terms of the Supplemental Deed, the financial position of the Company and alternative financing methods available to the Company which appear to be less favourable to the Company in terms of the interest burden.

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Having considered the above principal factors and reasons, we consider the terms of the Proposal, the Option Offer and the Extension are fair and reasonable so far as the Proposal Independent Shareholders, the Option Holders and the Extension Independent Shareholders are concerned. Accordingly, we recommend that the Independent Board Committee advises the Proposal Independent Shareholders, the Option Holders and the Extension Independent Shareholders to vote in favour of the Proposals, the Extension and the relevant ordinary and special resolutions, which will be proposed at the Court Meeting and the SGM respectively.

Yours faithfully,
For and on behalf of
Kingsway Capital Limited

Byron Tan
*Head of Investment Banking &
Managing Director*

Chu Tat Hoi
Director

EXPLANATORY STATEMENT

This explanatory statement constitutes the statement required under Section 100 of the Companies Act.

SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES

INTRODUCTION

On 19 April 2007, the Directors announced that on 4 April 2007, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act. The Offeror proposes that the Scheme Shares will be cancelled in exchange for HK\$1.050 in cash for each Scheme Share and will make an offer to all the Option Holders in consideration for their agreement to cancel their Options in accordance with the Takeovers Code. The Option Cancellation Price per Option will be HK\$0.46.

The purpose of this explanatory statement is to explain the Proposals and their effects and to give Shareholders other relevant information.

The attention of Shareholders is particularly drawn to the following sections of this document: (a) the “Letter from the Board” set out on pages 8 to 21 of this document; (b) the “Letter from the Independent Board Committee” set out on pages 22 to 23 of this document; (c) the “Letter from Kingsway” set out on pages 24 to 48 of this document; and (d) the “Scheme of Arrangement” set out on pages 134 to 138 of this document.

TERMS OF THE PROPOSAL

As at the Latest Practicable Date, the Scheme Shareholders were interested in 209,068,489 Shares, representing approximately 25.26% of the issued share capital of the Company. The Offeror proposes that the Scheme Shares will be cancelled in exchange for HK\$1.050 in cash for each Scheme Share. Under the Scheme as proposed:

- (1) The issued share capital of the Company shall be reduced by cancellation of the Scheme Shares.
- (2) Subject to and forthwith upon the said reduction of capital taking effect, the issued share capital of the Company shall be increased to its former amount by the creation of such number of new Shares as is equal to the number of the Scheme Shares.
- (3) Upon the Scheme becoming effective, the Company shall apply the reserve which arises in its books of account as a result of the said reduction of capital in paying up in full at par all the new Shares as created under paragraph (2) above which shall be allotted and issued to the Offeror or its nominees, credited as fully paid.

TERMS OF THE OPTION OFFER

Pursuant to the rules of the Share Option Scheme, if the Proposal is made, Option Holders shall be entitled to exercise all or any of his Options on or before the Option Exercise Date. Any Shares allotted and issued as a result of the exercise of the Options on or prior to the Option Exercise Date will be subject to and eligible to participate in the Scheme. If the Scheme is approved by the Proposal Independent Shareholders at the Court Meeting, the rights of the Option Holders to exercise their Options will be suspended with effect

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from the date of the Court Meeting. Upon the Scheme becoming effective, all Options will, to the extent not having been exercised, lapse and determine. If for any reason the Scheme is not approved by the Supreme Court, the rights of the Option Holders to exercise their Options shall be restored in full.

The Offeror will make an offer to all the Option Holders in consideration for their agreement to cancel their Options in accordance with the Takeovers Code. The Option Cancellation Price per Option will be HK\$0.46, being the see through price (relative to the Share Cancellation Price per Scheme Share) for the Options concerned.

The Option Offer is conditional upon the Scheme becoming effective. The Company will not grant any options under the Share Option Scheme during the offer period. The Option Offer commences on Monday, 4 June 2007. The Option Holders may elect to accept the Option Offer on the Option-holder Form of Acceptance and returning it to the Company Secretary of the Company at Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong to be received by not later than 4:00 p.m. on Friday, 20 July 2007 (or such later date and time as may be notified to the Option Holders by the Offeror), to receive the cash payment under the Option Offer.

As at the Announcement Date, there were 32,470,000 outstanding Options granted under the Share Option Scheme. Due to the resignation of an employee and some employees of the Group could not reach the performance goal as required under the terms of grant of the Options, 1,470,000 Options lapsed subsequent to the Announcement Date. As at the Latest Practicable Date, there are 31,000,000 outstanding Options granted under the Share Option Scheme all with exercise price of HK\$0.59 per Share. The holdings of the outstanding Options are summarized as follows:

	Number of Options held
Ms. Hui Mei Mei, Carol (<i>Note 1</i>)	8,270,000
Mr. Tung Chi Shing (<i>Note 2</i>)	8,270,000
Mr. Chan Loo Shya (<i>Note 2</i>)	3,880,000
Other employees	<u>10,580,000</u>
Total	<u><u>31,000,000</u></u>

Notes:

1. Ms. Hui Mei Mei, Carol is an executive Director and daughter of Mr. Hui and is presumed to be acting in concert with the Offeror.
2. Both Mr. Tung Chi Shing and Mr. Chan Loo Shya are executive Directors and are presumed to be acting in concert with the Offeror.

As at the Latest Practicable Date, Ms. Hui Mei Mei, Mr. Tung Chi Shing and Mr. Chan Loo Shya, all being parties presumed to be acting in concert with the Offeror, held an aggregate of 20,420,000 Options. To the extent that any of the 20,420,000 Options held by Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya are exercised and converted into Shares, such Shares will form part of the Scheme Shares but Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya will abstain from voting at the Court Meeting. As at the Latest Practicable Date, Ms. Hui Mei Mei, Carol has confirmed that it is her intention to accept the Option Offer for all her 8,270,000 Options; Mr. Tung Chi Shing has confirmed that it is his intention to accept the Option Offer for all his 8,270,000 Options; and Mr. Chan Loo Shya has confirmed that it is his intention to accept the Option Offer for all his 3,880,000 Options.

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Assuming that the Scheme becomes effective on Thursday, 26 July 2007 (Bermuda Time), cheques for cash payment under the Option Offer are expected to be despatched to Option Holders on or before Friday, 3 August 2007. The Letters to Option Holders setting out the terms and conditions of the Option Offer together with the Option-holder Form of Acceptance, which are substantially in the form set out in Appendix IV to this document, are being despatched separately to Option Holders. Option Holders should refer to the section headed "Action to be taken by Option Holders" in this explanatory statement.

OTHER SECURITIES

As at the Latest Practicable Date, there were (i) 827,639,886 Shares in issue; (ii) 31,000,000 outstanding Options granted under the Share Option Scheme; and (iii) the Convertible Note with an outstanding principal amount of HK\$250,000,000 entitling the holder to convert into a total of 185,185,185 new Shares (based on the initial conversion price of HK\$1.35 per Share under the terms of the Convertible Note).

As the Convertible Note was solely issued to Dynamic Keen, being an investment holding company wholly and beneficially owned by Mr. Hui, which is presumed to be acting in concert with the Offeror, a comparable offer will not be made to the holder of the Convertible Note under the Proposals.

Save as disclosed above, the Company does not have any warrants, options, derivatives, convertible securities or other securities in issue. There is (i) no irrevocable commitment to accept the Proposals which has been received by the Offeror or any parties acting in concert with it; (ii) no arrangements (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror or the Company and which might be material to the Proposals; and (iii) no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposals.

FINANCIAL EFFECTS OF THE PROPOSAL

Comparison of Value

The Share Cancellation Price of HK\$1.050 per Scheme Share represents:

- (a) a premium of 50.00% over the closing price of HK\$0.700 per Share as quoted on the Stock Exchange on 4 April 2007 (being the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Joint Announcement);
- (b) a premium of approximately 49.36% over the average closing price of HK\$0.703 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including 4 April 2007;
- (c) a premium of approximately 45.63% over the average closing price of approximately HK\$0.721 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including 4 April 2007;
- (d) a premium of approximately 44.63% over the average closing price of approximately HK\$0.726 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including 4 April 2007;
- (e) a premium of approximately 38.16% over the audited consolidated net asset value per Share of approximately HK\$0.760 as at 31 December 2006; and

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- (f) a premium of 5.00% over the closing price of HK\$1.000 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Net assets

As at 31 December 2006, the audited consolidated net assets of the Group amounted to approximately HK\$629,273,000, or approximately HK\$0.76 per Share based on 827,639,886 Shares in issue on that date. The Share Cancellation Price represents a premium of approximately 38.16% over the audited consolidated net asset value per Share as at 31 December 2006.

Earnings

The Group's audited consolidated loss attributable to Shareholders for the year ended 31 December 2006 amounted to approximately HK\$193,824,000, representing basic loss of approximately HK\$0.234 per Share based on the weighted average of 827,639,886 Shares in issue for the year ended 31 December 2006.

Dividends

The Company has not declared dividends during the year ended 31 December 2006.

TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Share Cancellation Price, which was arrived at on a commercial basis after taking into account the prevailing market price and the net asset value per Share as described above and with reference to other privatisation transactions in the past few years, the Proposals value the entire issued share capital of the Company as at the Latest Practicable Date at approximately HK\$869.02 million.

Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror. The total amount of cash required for the Proposals will range from (a) approximately HK\$233.78 million (including HK\$219.52 million payable for the Scheme Shares and HK\$14.26 million payable under the Option Offer) assuming no Option is exercised after the Latest Practicable Date but before the Option Exercise Date; to (b) approximately HK\$252.07 million payable for the Scheme Shares assuming all the Options are exercised after the Latest Practicable Date but before the Option Exercise Date. The Offeror intends to finance the cash required for the Proposals from a loan facility of HK\$255 million from China Construction Bank and/or its own cash resources. Partners Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the implementation of the Proposals. The payment of interest on, repayment of or security for any liability under the facility granted to the Offeror will not depend on the business of the Group.

CONDITIONS OF THE PROPOSALS

The Scheme will become effective and binding on the Company and all Scheme Shareholders subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Scheme Shares that are voted either in person or by proxy by the Scheme Shareholders at the Court Meeting provided that (i) the Scheme is also approved (by way of poll) by a majority in number of the Proposal Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in value

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of those Scheme Shares that are voted either in person or by proxy by the Proposal Independent Shareholders at the Court Meeting and (ii) the Scheme is not disapproved (by way of poll) by the Proposal Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Proposal Independent Shareholders;

- (b) the passing by Shareholders (other than those who are prohibited from voting under relevant laws, rules or regulations) of a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the issued share capital of the Company) by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the SGM;
- (c) the sanction of the Scheme (with or without modifications) by the Supreme Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Supreme Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements of Section 46 of the Companies Act in relation to the reduction of the issued share capital of the Company;
- (e) all Authorisations in connection with the Proposals having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in Bermuda, Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposals or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (g) all bank and other necessary consents which may be required under any existing contractual obligations of the Group being obtained and remaining in full force and effect without modification; and
- (h) if required, the obtaining by the Offeror of such other necessary consent, approval, authorisation, permission, waiver or exemption which may be required from any Relevant Authorities or other third parties which are necessary or desirable for the performance of the Scheme under the applicable laws and regulations.

The Offeror reserves the right to waive conditions (e), (f), (g) and (h) either in whole or in part in respect of any particular matter. Conditions (a) to (d) cannot be waived in any event. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 30 September 2007 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Supreme Court may direct), failing which the Scheme will lapse.

Assuming that the above conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on Thursday, 26 July 2007 (Bermuda Time). Further announcements will be made giving details of the results of the meetings, the result of the hearing of the petition to sanction the Scheme by the Supreme Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

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The Option Offer is subject to and conditional upon the Scheme becoming effective but does not otherwise form part of the Scheme.

REASONS FOR AND BENEFITS OF THE PROPOSAL

The Group has been focusing on strategic development of its international property development and investment business. Although Shima International Commercial and Exhibition Centre and Holiday Inn Suifenhe developed by the Group in the Municipality of Suifenhe, Heilongjiang Province, the PRC were completed and have commenced operation in August 2006, various measures were imposed by the Russian Government in 2006 and 2007 including, among others, the reduction of the weight of goods which can be carried cross-border by Russians from the PRC to Russia free of tariff and the introduction of the “Ban on Commerce” which has restricted foreigners to conduct retail business within Russia. All these measures affected not only the Sino-Russian cross-border trade but also the leasing of the Group’s shopping malls and hotels. The participation of the Group in the Baltic Pearl Project in St. Petersburg of Russia has also been suspended due to the fact that certain terms on project development were not fulfilled or waived within the extended period. As a result of the provision for the share of land appreciation tax of an associate and fair value adjustment of investment properties, the Group recorded a loss attributable to the Shareholders of HK\$193,824,000 for the year ended 31 December 2006.

The trading volume of the Shares has been thin, resulting in the low liquidity of the Shares. The average daily trading volume for the 6 months up to and including 4 April 2007 (being the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of the Joint Announcement) was approximately 502,786 Shares which is equivalent to approximately 0.24% of the number of Shares held in public hands (as defined in Rule 8.24 of the Listing Rules) on the Announcement Date. The average daily trading volume of the Shares for the Relevant Period was approximately 935,302 Shares which is equivalent to approximately 0.45% of the number of Shares held in public hands (as defined in Rule 8.24 of the Listing Rules) on the Latest Practicable Date.

Given the low liquidity of the Shares traded on the Stock Exchange and the unsatisfactory price performance of the Shares for more than one year, the Directors are of the opinion that there is currently limited exit potential for the Scheme Shareholders. Given the unsatisfactory financial performance of the Group for the year ended 31 December 2006, the ability of the Company to take advantage of its listing status to raise funds from the equity markets may be limited and any significant improvement in this regard in the foreseeable future is unlikely. Accordingly, it would not be justifiable to maintain the listing status after taking into consideration the costs and management resources associated with the maintenance of the Company’s listing on the main board of the Stock Exchange.

Since the Offeror is already interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date, the Directors believe that it is unlikely that the Scheme Shareholders will receive any other general offer from a third party to acquire the Scheme Shares, as such offer would not succeed without the approval of the Offeror. In addition, Shareholders should note that no discussions have taken place (or are taking place) with any third party regarding the disposal of any of the Shares held by the Offeror and the Offeror has no intention of discontinuing the Group’s businesses.

As the Share Cancellation Price represents a premium of approximately 49.36%, approximately 45.63% and approximately 44.63% over the 10-day, 30-day and 60-day approximate average closing price per Share as detailed above in this document, the Directors believe that the Proposal will provide an opportunity for all Scheme Shareholders to realise their investments in the Company at a price significantly above the prevailing market price of the Shares.

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INFORMATION ON THE GROUP

The Company was incorporated in Bermuda with limited liability. 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.

The following table is a summary of the audited financials of the Group for the two years ended 31 December 2006:

	For the year ended	
	31 December	
	2006	2005
	<i>(audited)</i>	<i>(audited)</i>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Turnover	104,943	13,987
Gross profit	51,497	11,447
Profit/(Loss) before taxation	(218,338)	163,108
Profit/(Loss) after taxation	(193,824)	109,009
Net assets	629,273	747,872

SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposals (assuming no Option is exercised after the Latest Practicable Date but before completion of the Proposals):

	As at the Latest		Upon completion	
	Practicable Date		of the Proposals	
	<i>Number of</i>	<i>Approximate</i>	<i>Number of</i>	<i>Approximate</i>
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
The Offeror and its parties acting in concert <i>(Note)</i>	618,571,397	74.74	827,639,886	100.00
Proposal Independent Shareholders	209,068,489	25.26	—	—
Total	<u>827,639,886</u>	<u>100.00</u>	<u>827,639,886</u>	<u>100.00</u>

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The following table sets out the shareholding structure of the Company before and immediately upon completion of the Proposals (assuming all Options are exercised after the Latest Practicable Date but before completion of the Proposals):

	Before completion of the Proposals		Upon completion of the Proposals	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
The Offeror (<i>Note</i>)	618,571,397	72.04	858,639,886	100.00
Ms. Hui Mei Mei, Carol, being Offeror's concert party	8,270,000	0.96	—	—
Mr. Tung Chi Shing and Mr. Chan Loo Shya, being Offeror's concert parties	12,150,000	1.42	—	—
The Offeror and its parties acting in concert	638,991,397	74.42	858,639,886	100.00
Proposal Independent Shareholders	219,648,489	25.58	—	—
Total	858,639,886	100.00	858,639,886	100.00

Note: The interests disclosed represent the interest in the Company held by the Offeror, 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 Trust Company (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.

INFORMATION ON THE OFFEROR

The Offeror is 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 Trust Company (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. The board of directors of the Offeror comprises two directors, namely, Mr. Hui and Ms. Hui Mei Mei, Carol. The Offeror is also the controlling Shareholder interested in approximately 74.74% of the issued share capital of the Company as at the Latest Practicable Date.

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INTENTIONS REGARDING THE GROUP

It is the intention of the Offeror to retain the Group's existing employees and senior management team and continue the existing business of the Group upon successful privatisation of the Company. The Offeror does not have any intention to introduce any major changes to the existing operating and management structure of the Group or to redeploy any fixed assets of the Group.

The Offeror is of the view that given the unsatisfactory financial performance of the Group for the year ended 31 December 2006, the ability of the Company to take advantage of its listing status to raise funds from the equity markets may be limited and any significant improvement in this regard in the foreseeable future is unlikely. Accordingly, the Offeror put forward the Proposals and it would not be justifiable to maintain the listing status after taking into consideration the costs and management resources associated with the maintenance of the Company's listing on the main board of the Stock Exchange.

No Share acquired by the Offeror pursuant to the Proposal will be transferred, charged or pledged to any other persons, and there are no agreement, arrangement or understanding to do the same, nor are there any related charges or pledges which may result in the transfer of voting rights attached to the Shares acquired by the Offeror.

WITHDRAWAL OF THE LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange following the Effective Date. The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Tuesday, 17 July 2007, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:30 a.m. on Friday, 27 July 2007.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme is not approved or lapses.

OVERSEAS SHAREHOLDERS AND OPTION HOLDERS

This document will also be despatched to the Shareholders and Option Holders not resident in Hong Kong.

The making of the Proposals to Shareholders and Option Holders not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such Shareholders and Option Holders should inform themselves appropriately and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Shareholders and Option Holders wishing to accept the Proposals to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

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THE COURT MEETING AND THE SGM

In accordance with the direction of the Supreme Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). As regards to the requirements under the Takeovers Code (and the Companies Act), such a resolution will only be considered to have been passed if the Scheme has been approved (by way of poll) by a majority in number of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Scheme Shareholders at the Court Meeting provided that the Scheme is also approved (by way of poll) by a majority in number of the Proposal Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in nominal value of those Shares that are voted either in person or by proxy by the Proposal Independent Shareholders at the Court Meeting and that the Scheme is not disapproved (by way of poll) by Proposal Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Proposal Independent Shareholders.

As at the Latest Practicable Date, the Offeror and the parties acting in concert with it held (i) 618,571,397 Shares, representing approximately 74.74% of the issued share capital of the Company; (ii) 20,420,000 outstanding Options; and (iii) a Convertible Note with an outstanding principal amount of HK\$250,000,000. The Offeror and all parties acting in concert with it will be required to abstain from voting on the Scheme at the Court Meeting. To the extent that any of the 20,420,000 Options held by Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya are exercised and converted into Shares, such Shares will form part of the Scheme Shares but Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya will abstain from voting at the Court Meeting.

The SGM will be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing (i) a special resolution to approve the implementation of the Scheme by the Shareholders and (ii) an ordinary resolution to approve the Extension by the Extension Independent Shareholders by way of poll. All Shareholders will be entitled to attend and vote on such special resolution in relation to the Scheme at the SGM. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the SGM. If the Scheme is approved at the Court Meeting, the Offeror will procure the voting of its beneficial interests in the Company in favour of the special resolution to be proposed at the SGM to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the issued share capital of the Company).

Dynamic Keen and its associates (as defined under the Listing Rules) including, but not limited to, the Offeror will be required to abstain from voting on the Extension at the SGM.

Notices of the Court Meeting and the SGM are set out on pages 139 to 143 of this document. The Court Meeting and the SGM will be held on Wednesday, 27 June 2007 at the respective times specified in such notices at Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

PROCEDURES FOR DEMANDING A POLL AT THE SGM

The bye-laws of the Company provide that a poll may be demanded by (i) the Chairman of the meeting, (ii) at least three shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting, or (iii) a shareholder or shareholders present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all

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shareholders having the right to vote at the meeting, or (iv) a shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right. The bye-laws of the Company further provide that a demand by a person as proxy for a member (or, in the case of a member being a corporation, by its duly authorized representative) shall be deemed to be the same as a demand by a member.

ACTION TO BE TAKEN BY THE SHAREHOLDERS

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the SGM are enclosed with this document. Whether or not you are able to attend the Court Meeting and/or the SGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the SGM, in accordance with the respective instructions printed thereon, and to lodge them with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged so as to reach the above address not later than 10:00 a.m. on Monday, 25 June 2007 but if it is not so lodged, it may be handed to the Chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the SGM should be lodged so as to reach the above address not later than 10:30 a.m. on Monday, 25 June 2007. Completion and return of a form of proxy for the Court Meeting or the SGM will not preclude you from attending and voting in person at the relevant meeting. In the event that you attend and vote in person at the relevant meeting, the returned form of proxy will be deemed to have been revoked.

For the purpose of determining (i) the Proposal Independent Shareholders who are entitled to attend and vote at the Court Meeting and (ii) the Shareholders who are entitled to attend and vote at the SGM, the register of the members of the Company will be closed from Friday, 22 June 2007 to Wednesday, 27 June 2007 (both dates inclusive). During such period no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting or the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 21 June 2007.

Further announcements will be made giving details of the results of the meetings, the result of the hearing of the petition to sanction the Scheme by the Supreme Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

SHAREHOLDERS WHO HOLD THEIR SHARES THROUGH TRUST OR CCASS

No person shall be recognised by the Company as holding any Shares on trust. Any beneficial owner of Shares ("Beneficial Owner") whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party ("Registered Owner") should contact the Registered Owner to give instructions to and/or to make arrangements with the Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the SGM. A Beneficial Owner who wishes to attend the Court Meeting and/or the SGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the SGM and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the SGM shall be in accordance with all relevant provisions in the bye-laws of the Company. In the case of the appointment of a proxy by the Registered

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Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant (the “Investor Participant”), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant (“Other CCASS Participant”) regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

ACTION TO BE TAKEN BY OPTION HOLDERS

The Letter to Option Holders setting out the terms and conditions of the Option Offer is being despatched on the date of this document separately to each of the Option Holders. Option Holders should refer to those letters, which are substantially in the form set out in Appendix IV to this document. Option Holders should also note the instructions and terms printed on the Option-holder Form of Acceptance despatched to Option Holders in connection with the Option Offer.

Courses of Action available to Option Holders

- (1) Pursuant to the Share Option Scheme, Option Holders may exercise on or before the Option Exercise Date all or any Options which have become exercisable in accordance with the rules of the Share Option Scheme. Any Shares issued as a result of such exercise on or before the Option Exercise Date will be subject to and eligible to participate in the Scheme.
- (2) The Option Offer commences on Monday, 4 June 2007. To the extent any of the Options are not exercised on or before the Option Exercise Date, Option Holders may accept the Option Offer by allowing such unexercised Options to lapse and electing to accept the Option Offer on the Option-holder Form of Acceptance and returning it to the Company Secretary of the Company at Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong to be received by not later than 4:00 p.m. on Friday, 20 July 2007 (or such later date and time as may be notified to the Option Holders by the Offeror), to receive the cash payment under the Option Offer.
- (3) Option Holders can do nothing, or fail to accept the Option Offer in accordance with the terms set out in the Letter to Option Holders, in which case, if the Scheme becomes effective, all those unexercised Options will lapse and determine upon the Scheme becoming effective and be worthless.

Based on the currently expected date of the Court Meeting, the latest date for exercising the Options to qualify for attending and voting at the Court Meeting and the SGM and for entitlements under the Scheme is Wednesday, 20 June 2007.

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REGISTRATION AND PAYMENT

If the Scheme becomes effective, cheques for the Share Cancellation Price will be despatched to the Scheme Shareholders whose names appear on the register of members of the Company at the Record Time as soon as possible but in any event within 10 days after the Effective Date. For the purpose of establishing entitlements to the Share Cancellation Price, it is proposed that the register of the members of the Company be closed from Monday, 23 July 2007 to Thursday, 26 July 2007 (both dates inclusive), or such other period as may be notified to the Scheme Shareholders by way of an announcement. The Scheme Shareholders and/or their respective successors in title should ensure that their Shares are registered or lodged for registration in their names or in the names of their nominees by 4:00 p.m. on Friday, 20 July 2007.

Assuming that the Scheme becomes effective on Thursday, 26 July 2007 (Bermuda time), cheques for cash entitlements to the Share Cancellation Price and the Option Cancellation Prices are expected to be despatched to the Scheme Shareholders, the Option Holders and/or their respective successors on or before Friday, 3 August 2007.

As provided in the Scheme, on or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheques which have not then been cashed or have been returned uncashed, and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums to persons who satisfy the Offeror that they are entitled thereto and that the cheques of which they are payees have not been cashed. No payments made by the Offeror will include any interests accrued on the sums to which the respective persons are entitled under the Scheme. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligations to make any payments under the Scheme and the Offeror shall thereafter retain the balance (if any) of the sums then standing to the credit of the deposit account referred to in paragraph 3(e) of the Scheme, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deductions required by law and subject to the deduction of any expenses. In the absence of any specific instructions to the contrary received in writing by the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited, cheques will be despatched to the persons entitled thereto at their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither the Company nor the Offeror will be liable for any loss or delay in transmission. Payment of the Share Cancellation Price will be effected by cheques and implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any Scheme Shareholder.

Payment of the Option Cancellation Prices will be effected by cheques and implemented in full in accordance with the terms of the Option Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any Option Holder.

EXPLANATORY STATEMENT

TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Shareholders and Option Holders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Proposals. It is emphasised that none of the Company, the Offeror, Partners Capital, Kingsway or any of their respective directors or any persons involved in the Proposals accepts responsibility for any tax effects or liabilities of any person or persons as a result of the implementation of the Proposals.

RECOMMENDATIONS

In the letter from Kingsway, Kingsway states that it considers the terms of the Proposals, and in particular, the Share Cancellation Price and the Option Cancellation Price, are fair and reasonable so far as the Proposal Independent Shareholders and the Option Holders are concerned and the Proposals are in the interests of the Proposal Independent Shareholders and the Option Holders, and recommends that the Independent Board Committee advises the Proposal Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the SGM to approve and implement the Scheme.

The Independent Board Committee have considered the terms of the Proposals and taken into account the opinion and advice of Kingsway, in particular the factors, reasons and recommendation as set out in the “Letter from Kingsway” on pages 24 to 48 of this document. The Independent Board Committee’s recommendation is set out in the “Letter from the Independent Board Committee” on pages 22 to 23 of this document.

ADDITIONAL INFORMATION

Additional information is set out in the appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

1. FINANCIAL SUMMARY

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2006 as extracted from its annual reports. The auditors' report in respect of the Company's audited accounts for the three years ended 31 December did not contain any qualification.

	For the year ended 31 December		
	2006	2005	2004
	HK\$'000	HK\$'000	HK\$'000
Revenue	104,943	13,987	6,612
Cost of sales	(53,446)	(2,540)	(1,117)
Gross profit	<u>51,497</u>	<u>11,447</u>	<u>5,495</u>
(Loss) profit before tax	(218,338)	163,108	201,653
Income tax credit (expense)	24,514	(54,099)	(13,850)
(Loss) profit for the year	<u>(193,824)</u>	<u>109,009</u>	<u>187,803</u>
2004 final dividend of HK\$0.05 per ordinary share, paid	<u>—</u>	<u>41,382</u>	<u>—</u>
(LOSS) EARNINGS PER SHARE			
Basic	<u>HK(23.4) cents</u>	<u>HK13.2 cents</u>	<u>HK22.7 cents</u>
Diluted	<u>HK(23.4) cents</u>	<u>HK12.4 cents</u>	<u>HK22.7 cents</u>

Note: For the three years ended 31 December 2006, there were no extraordinary items, exceptional items and minority interest.

2. AUDITED FINANCIAL STATEMENTS

The following is the unqualified audited financial statements of the Group for the year ended 31 December 2006 as extracted from the annual report of the Company for the year ended 31 December 2006:

Consolidated Income Statement

For the year ended 31 December 2006

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue	7	104,943	13,987
Cost of sales		<u>(53,446)</u>	<u>(2,540)</u>
Gross profit		51,497	11,447
Other income	9	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	38	—	17,976
Share of (loss) profit of an associate		(87,158)	6,012
Finance costs	10	<u>(41,024)</u>	<u>(33,154)</u>
(Loss) profit before tax		(218,338)	163,108
Income tax credit (expense)	11	<u>24,514</u>	<u>(54,099)</u>
(Loss) profit for the year	12	<u><u>(193,824)</u></u>	<u><u>109,009</u></u>
2004 final dividend of HK\$0.05 per ordinary share, paid		<u>—</u>	<u>41,382</u>
(LOSS) EARNINGS PER SHARE	15		
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*

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(restated)</i>
Non-current Assets			
Investment properties	16	830,900	801,826
Property, plant and equipment	17	390,131	219,461
Prepaid lease payments	18	662,247	677,878
Investment in an associate	19	25,488	112,646
Deferred tax assets	20	28,871	21,410
		<u>1,937,637</u>	<u>1,833,221</u>
Current Assets			
Properties held for sale	21	229,087	263,597
Prepaid lease payments	18	12,235	11,622
Trade receivables	22	1,268	816
Other receivables		10,115	10,935
Amount due from a related company	23	3,610	—
Bank balances and cash	24	48,798	27,574
		<u>305,113</u>	<u>314,544</u>
Current Liabilities			
Trade payables	25	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	23	198,003	40
Amounts due to related companies	23	8,797	3,220
Secured bank borrowings — due within one year	26	201,946	136,720
Convertible note	29	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>

Consolidated Balance Sheet*At 31 December 2006*

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(restated)</i>
Capital and Reserves			
Share capital	27	82,764	82,764
Reserves		<u>546,509</u>	<u>665,108</u>
Total Equity		<u>629,273</u>	<u>747,872</u>
Non-current Liabilities			
Secured bank borrowings — due after one year	26	263,992	270,919
Promissory notes	28	140,839	136,427
Convertible note	29	—	236,134
Amount received from Suifenhe Land Reserve Centre	30	39,883	104,048
Deferred tax liabilities	20	<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>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2006*

	Share capital <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Share options reserves <i>HK\$'000</i>	Foreign exchange translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Convertible note equity reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	82,764	104,478	—	—	—	474,553	—	661,795
Exchange differences arising on translation of operations in the People's Republic of China ("PRC")	—	—	—	—	16,501	—	—	16,501
Total recognised income directly in equity	—	—	—	—	16,501	—	—	16,501
Profit for the year	—	—	—	—	—	109,009	—	109,009
Total recognised income for the year	—	—	—	—	16,501	109,009	—	125,510
Issuance of convertible note	—	—	—	—	—	—	1,949	1,949
2004 final dividend paid	—	—	—	—	—	(41,382)	—	(41,382)
At 31 December 2005	82,764	104,478	—	—	16,501	542,180	1,949	747,872
Exchange differences arising on translation of operations in the PRC	—	—	—	—	51,290	—	—	51,290
Surplus on revaluation arising from prepaid lease payments immediately prior to the transfer to investment properties	—	—	25,863	—	—	—	—	25,863
Deferred tax liabilities arising from revaluation	—	—	(4,500)	—	—	—	—	(4,500)
Total recognised income directly in equity	—	—	21,363	—	51,290	—	—	72,653
Loss for the year	—	—	—	—	—	(193,824)	—	(193,824)
Total recognised income (loss) for the year	—	—	21,363	—	51,290	(193,824)	—	(121,171)
Recognition of equity-settled share based payments	—	—	—	2,572	—	—	—	2,572
At 31 December 2006	82,764	104,478	21,363	2,572	67,791	348,356	1,949	629,273

The contributed surplus of the Group 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.

Consolidated Cash Flow Statement*For the year ended 31 December 2006*

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
OPERATING ACTIVITIES			
(Loss) profit before tax		(218,338)	163,108
Adjustments for:			
Amortisation of prepaid lease payments		11,987	8,354
Depreciation of property, plant and equipment		11,030	4,675
Finance costs		41,024	33,154
Interest income		(911)	(330)
Share base payment expenses		2,572	—
Decrease (increase) in fair value of investment properties		53,001	(224,642)
Share of results of an associate		87,158	(6,012)
Excess of fair values of net assets acquired over cost of acquisition		—	(17,976)
		<hr/>	<hr/>
Operating cash flows before movements in working capital		(12,477)	(39,669)
Decrease (increase) in properties held for sale		38,976	(30,140)
Increase in trade receivables		(452)	(712)
(Decrease) increase in other receivables		(3,182)	16,274
Decrease in trade payables		(37,599)	(51)
(Decrease) increase in advanced proceeds received from customers		(85,985)	43,021
Decrease in amount received from Suifenhe Land Reserve Centre		(64,165)	—
Increase (decrease) in other payables		124,577	(1,202)
		<hr/>	<hr/>
Cash used in operations		(40,307)	(12,479)
Income tax refunded (paid)		8,309	(420)
Interest paid		(21,513)	(14,443)
		<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES		<u>(53,511)</u>	<u>(27,342)</u>

Consolidated Cash Flow Statement*For the year ended 31 December 2006*

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(181,747)	(110,804)
Advances to a related company		(3,610)	—
Interest received		911	330
Dividends received from an associate		—	188,679
Net cash from acquisition of a subsidiary	38	—	19,093
		<u>(184,446)</u>	<u>97,298</u>
NET CASH (USED IN) FROM INVESTING ACTIVITIES			
FINANCING ACTIVITIES			
Advances from (repayments to) ultimate holding company		197,963	(99,329)
New secured bank borrowings raised		195,000	260,000
Advances from (repayments to) related companies		5,577	(884)
Repayments of secured bank borrowings		(136,701)	(88,781)
Repayments of promissory note		(350)	(92,000)
Dividends paid		—	(41,382)
		<u>261,489</u>	<u>(62,376)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES			
NET INCREASE IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		23,532	7,580
		27,574	18,359
Effect of foreign exchange rates changes		(2,308)	1,635
		<u>48,798</u>	<u>27,574</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash			
		<u><u>48,798</u></u>	<u><u>27,574</u></u>

Notes to the Consolidated Financial Statements*For the year ended 31 December 2006***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 the British Virgin Islands). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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 details of the Company’s principal subsidiaries are set out in note 37.

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
HKFRS 8	Operating Segments ⁷
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
HK(IFRIC) – Int 12	Service Concession Arrangements ⁸

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

⁷ Effective for annual periods beginning on or after 1 January 2009

⁸ Effective for annual periods beginning on or after 1 January 2008

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related tax.

Revenue from sale of properties in the ordinary course of business (including revenue from pre-completion contracts for the sale of development properties) is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from hotel operation is recognised when services are rendered.

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including hotel properties, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment in the course of construction for production and for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet

date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations in the PRC are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the foreign exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. The accounting policies adopted are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from a related company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Convertible note

Convertible note issued by the Group that contains both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible note and the fair value assigned to the liability component, representing the conversion option for the holder to convert the note into equity, is included in equity (convertible note equity reserve).

In subsequent periods, the liability component of the convertible note is carried at amortised cost using the effective interest method. The equity component, represented the option to convert the liability component into ordinary shares of the Company, will remain in convertible note equity reserve until the embedded option is exercised (in which

case the balance stated in convertible note equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible note equity reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible note are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to convertible note equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible note using the effective interest method.

Other financial liabilities

Other financial liabilities (including trade payables, advanced proceeds received from customers, other payables, amounts due to ultimate holding company and related companies, bank borrowings, promissory notes and amount received from Suifenhe Land Reserve Centre) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made the following judgments that have a significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Income taxes

As at 31 December 2006, a deferred tax asset of HK\$28,871,000 in relation to unused tax losses has been recognised in the Group's balance sheet. No deferred tax asset has been recognised on the tax losses of HK\$46,625,000 due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a reversal takes place.

Going concern

As at 31 December 2006, the Group had net current liabilities of HK\$591,564,000. The directors are of the opinion that the preparation of these consolidated financial statements is based on a going concern basis and the basis of a going concern has been disclosed in note 2. Should there be any problem in the Group being a going concern, all the assets and liabilities will have to be stated at net realisable and settlement values.

6. FINANCIAL INSTRUMENTS**(a) Financial risk management objectives and policies**

The Group's major financial instruments include trade receivables, other receivables, amount due from a related company, bank balances, trade payables, advanced proceeds received from customers, other payables, amount due to ultimate holding company, amounts due to related companies, bank borrowings, promissory notes, convertible note and amount received from Suifenhe Land Reserve Centre. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on the financial support of its ultimate holding company, PZIL, as a significant source of liquidity.

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate promissory notes and convertible note. The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the failure of the counterparties to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Currency risk

The Group has engaged in certain transactions which are denominated in foreign currencies and is therefore exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy.

However, the Group's management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arises. The management would seek financial consultant to advise on the investment portfolio held by the Group, if necessary.

(b) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

7. 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	2,304	—
	<u>104,943</u>	<u>13,987</u>

8. 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>	(36,658)
Other income				7,795
Unallocated corporate expenses				(61,293)
Share of loss of an associate	(87,158)	—	—	(87,158)
Finance costs				<u>(41,024)</u>
Loss before tax				(218,338)
Income tax credit				<u>24,514</u>
Loss for the year				<u>(193,824)</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

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	—	13,987	—	13,987
SEGMENT RESULTS	(18,441)	233,117	—	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				(33,154)
Profit before tax				163,108
Income tax expense				(54,099)
Profit for the year				109,009

BALANCE SHEET

As at 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>
Assets				
Segment assets	229,087	836,360	298,089	1,363,536
Investment in an associate	25,488	—	—	25,488
Unallocated corporate assets				853,726
				2,242,750
Liabilities				
Segment liabilities	8,864	6,094	3,440	18,398
Unallocated corporate liabilities				1,595,079
Consolidated total liabilities				1,613,477

OTHER INFORMATION

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

BALANCE SHEET

As at 31 December 2005	Property development <i>HK\$ '000</i> <i>(restated)</i>	Property investment <i>HK\$ '000</i> <i>(restated)</i>	Hotel operation <i>HK\$ '000</i>	Total <i>HK\$ '000</i> <i>(restated)</i>
Assets				
Segment assets	263,597	947,380	—	1,210,977
Investment in an associate	112,646	—	—	112,646
Unallocated corporate assets				824,142
Consolidated total assets				<u>2,147,765</u>
Liabilities				
Segment liabilities	12,311	3,974	—	16,285
Unallocated corporate liabilities				1,383,608
Consolidated total liabilities				<u>1,399,893</u>

OTHER INFORMATION

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

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) (note 35) derived in Hong Kong and all the remaining revenue of the Group were derived in the PRC.

The following is an analysis of 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 <i>HK\$ '000</i>	2005 <i>HK\$ '000</i> <i>(restated)</i>	2006 <i>HK\$ '000</i>	2005 <i>HK\$ '000</i> <i>(restated)</i>
Hong Kong	196,132	144,331	20,764	6,423
PRC	1,167,404	1,066,646	161,405	237,063
	<u>1,363,536</u>	<u>1,210,977</u>	<u>182,169</u>	<u>243,486</u>

9. OTHER INCOME

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Interest on bank deposits	911	330
Business tax refunded	6,191	—
Others	693	790
	<u>7,795</u>	<u>1,120</u>

10. FINANCE COSTS

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
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	11,670	5,724
	<u>41,024</u>	<u>33,154</u>

11. INCOME TAX CREDIT (EXPENSE)

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Current tax arising in the PRC	(5,584)	(420)
Deferred tax (note 20)	30,098	(53,679)
	<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 to pay the PRC local tax of 3% for ten years up to 2014.

In addition, a PRC subsidiary is a wholly foreign-owned enterprise 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 the first two profit making years and 50% reduction from the full enterprise income rate of 24% for the next three profit making years, after which it will have to pay the enterprise income tax at the then prevailing tax rate.

The tax (credit) charge for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	2006 <i>HK\$ '000</i>	2005 <i>HK\$ '000</i>
(Loss) profit before tax	(218,338)	163,108
Tax at domestic rates applicable to profits of taxable entities in the region concerned	(62,129)	63,779
Tax effect of share of results of an associate	28,762	(1,443)
Tax effect of tax losses not recognised	2,975	1,276
Tax effect of expenses not deductible for tax purpose	16,473	14,478
Effect of tax holiday granted to a subsidiary	(1,910)	—
Tax effect of income not taxable for tax purpose	(27)	(3,146)
Tax effect of utilisation of tax losses previously not recognised	(7,063)	(1,023)
Recognition of tax losses previously not recognised	—	(21,410)
Others	(1,595)	1,588
Tax (credit) charge for the year	<u>(24,514)</u>	<u>54,099</u>

Note:

As the Group operates in several different tax jurisdictions, separate reconciliation using the domestic tax rate in each individual tax jurisdiction have been aggregated and presented.

12. (LOSS) PROFIT FOR THE YEAR

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

	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	(422)	(4,509)
	<u>11,987</u>	<u>8,354</u>
Auditors' remuneration	1,023	955
Staff costs, including directors' emoluments	23,753	21,060
Share option expenses	2,572	—
Retirement benefits scheme contributions	687	535
Total staff costs	<u>27,012</u>	<u>21,595</u>
Depreciation of property, plant and equipment	11,030	4,675
Net exchange losses	21,850	—
and after crediting:		
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>

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 8 (2005: 11) directors were as follows:

Year ended 31 December 2006

Name of directors	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Share-based payment <i>HK\$'000</i>	Contributions	Total <i>HK\$'000</i>
					to pension scheme <i>HK\$'000</i>	
Hui Wing Mau	120	—	—	—	—	120
Hui Mei Mei, Carol	2,016	—	504	655	12	3,187
Hui Sai Tan, Jason (resigned on 22 June 2006)	334	—	—	—	6	340
Tung Chi Shing	480	1,159	344	655	12	2,650
Chan Loo Shya	252	546	328	307	12	1,445
	<u>3,202</u>	<u>1,705</u>	<u>1,176</u>	<u>1,617</u>	<u>42</u>	<u>7,742</u>

Name of independent non-executive directors	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Share-based payment <i>HK\$'000</i>	Contributions	Total <i>HK\$'000</i>
					to pension scheme <i>HK\$'000</i>	
Liu Hing Hung	120	—	—	—	—	120
Lee Chack Fan	120	—	—	—	—	120
Zhu Wenhui	120	—	—	—	—	120
	<u>360</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>360</u>

Year ended 31 December 2005

Name of directors	Fees <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Share-based payment <i>HK\$'000</i>	Contributions	Total <i>HK\$'000</i>
					to pension scheme <i>HK\$'000</i>	
Hui Wing Mau	350	—	150	—	12	512
Chung Shui Ming, Timpson (resigned on 1 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 19 February 2005)	209	456	400	—	11	1,076
Chan Loo Shya (appointed on 19 February 2005)	203	299	215	—	11	728
	<u>3,912</u>	<u>3,232</u>	<u>1,885</u>	<u>—</u>	<u>67</u>	<u>9,096</u>

Name of independent non-executive directors	Fees <i>HK\$ '000</i>	Salaries <i>HK\$ '000</i>	Discretionary bonuses <i>HK\$ '000</i>	Share-based payment <i>HK\$ '000</i>	Contributions	Total <i>HK\$ '000</i>
					to pension scheme <i>HK\$ '000</i>	
Liu Hing Hung	120	—	—	—	—	120
Lee Chack Fan	120	—	—	—	—	120
Zhu Wenhui	120	—	—	—	—	120
Lu Hong Bing (resigned on 19 February 2005)	8	—	—	—	—	8
Yu Hon To, David (resigned on 19 February 2005)	25	—	—	—	—	25
	<u>393</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>393</u>

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2005: four) were executive directors of the Company whose emoluments are included in the disclosures in Note 13 above. The emoluments of the remaining two (2005: one) individuals were as follows:

	2006 <i>HK\$ '000</i>	2005 <i>HK\$ '000</i>
Salaries and other benefits	2,186	1,009
Retirement benefit scheme contributions	<u>24</u>	<u>12</u>
	<u>2,210</u>	<u>1,021</u>

Their emoluments were within the following bands:

	Number of employees	
	2006	2005
Below HK\$1,000,000	1	—
HK\$1,000,001 — HK\$1,500,000	<u>1</u>	<u>1</u>

15. (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	11,670	5,724
(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	—	—
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.

16. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
FAIR VALUE	
At 1 January 2005	220,000
Exchange adjustments	4,231
Transfers from prepaid lease payments	233,516
Transfers from property, plant and equipment	119,437
Net increase in fair value recognised in the consolidated income statement	<u>224,642</u>
At 31 December 2005	<u>801,826</u>
Exchange adjustments	32,074
Transfers from prepaid lease payments	44,626
Transfers from property, plant and equipment	5,375
Net decrease in fair value recognised in the consolidated income statement	<u>(53,001)</u>
At 31 December 2006	<u>830,900</u>

The fair value of the Group's investment properties at 31 December 2006 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group. Savills Valuation and Professional Services Limited is a member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation which conforms to International Valuation Standards, was arrived at by reference to market value of the property. The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The Group has pledged certain of its investment properties, amounting to approximately HK\$307,798,000 (2005: Nil) and assigned certain of its rental income, to secure banking facilities granted to the Group.

During the year, prepaid lease payments were transferred at valuation amounting to HK\$44,626,000 to investment properties and the revaluation surplus of HK\$21,363,000, after netting off the corresponding deferred taxation of HK\$4,500,000, was charged to the revaluation reserve.

The carrying value of investment properties shown above comprises:

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Land in Hong Kong:		
Long lease	52,500	—
Land in the PRC:		
Medium-term lease	778,400	801,826
	<u>830,900</u>	<u>801,826</u>

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and hotel HK\$ '000	Construction in progress HK\$ '000	Leasehold improvements HK\$ '000	Furniture and office equipment HK\$ '000	Motor vehicles HK\$ '000	Total HK\$ '000
COST						
At 1 January 2005	93,633	—	7,894	1,000	1,442	103,969
Exchange adjustments	—	1,847	—	296	—	2,143
Additions	—	141,314	3,601	862	—	145,777
Disposals	—	—	—	—	—	—
Acquisition of a subsidiary (note 38)	—	96,030	—	1,679	—	97,709
Transfer to investment properties	—	(119,437)	—	—	—	(119,437)
At 31 December 2005	93,633	119,754	11,495	3,837	1,442	230,161
Exchange adjustments	—	4,790	36	106	—	4,932
Additions	—	158,432	20,658	3,079	—	182,169
Transfer	282,976	(282,976)	—	—	—	—
Transfer to investment properties	(5,816)	—	—	—	—	(5,816)
At 31 December 2006	370,793	—	32,189	7,022	1,442	411,446
DEPRECIATION						
At 1 January 2005	2,716	—	2,150	444	453	5,763
Exchange adjustments	—	—	—	262	—	262
Charge for the year	1,870	—	2,094	423	288	4,675
At 31 December 2005	4,586	—	4,244	1,129	741	10,700
Exchange adjustments	—	—	8	18	—	26
Charge for the year	7,438	—	2,516	788	288	11,030
Transfer to investment properties	(441)	—	—	—	—	(441)
At 31 December 2006	11,583	—	6,768	1,935	1,029	21,315
CARRYING VALUES						
At 31 December 2006	359,210	—	25,421	5,087	413	390,131
At 31 December 2005	89,047	119,754	7,251	2,708	701	219,461

The above items of property, plant and equipment are depreciated on a straight line basis over their estimated useful lives and after taking into account their estimated residual value as follows:

Buildings and hotel	shorter of the lease term or 50 years
Leasehold improvements	5 years or over the relevant lease period
Furniture and office equipment	5 to 13 years
Motor vehicles	5 years

The carrying value of buildings and hotel shown above comprises:

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Land in Hong Kong:		
Long lease	81,866	89,047
Land in the PRC:		
Medium-term lease	277,344	—
	<u>359,210</u>	<u>89,047</u>

The Group has pledged its buildings and hotel having a net carrying value of approximately HK\$90,133,000 (2005: HK\$89,047,000) to secure general banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Long lease	263,620	285,596
Leasehold land in the PRC		
Medium-term lease	410,862	403,904
	<u>674,482</u>	<u>689,500</u>
Analysed for reporting purposes as:		
Current asset	12,235	11,622
Non-current asset	662,247	677,878
	<u>674,482</u>	<u>689,500</u>
		<i>HK\$ '000</i>
As at 1 January 2006		689,500
Exchange adjustment		16,154
Revaluation of certain prepaid lease payments immediately prior to the transfer to investment properties		25,863
Amortisation for the year		(12,409)
Amount transferred to investment properties		<u>(44,626)</u>
As at 31 December 2006		<u>674,482</u>

The Group has pledged its prepaid lease payments of approximately HK\$278,239,000 (2005 HK\$285,595,000).

19. INVESTMENT IN AN ASSOCIATE

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Cost of investment in an associate	293,103	293,103
Share of post-acquisition losses	(269,825)	(182,667)
Exchange differences	2,210	2,210
	<u>25,488</u>	<u>112,646</u>

As at 31 December 2006, the Group had investment in the following associate:

Name of entity	Place of establishment/ operation	Proportion of registered capital held by the Group	Principal activity
Shanghai Shimao Hubin Real Estate Company Limited (“Shimao Hubin”)	The PRC	50%	Property development

Shimao Hubin is a sino-foreign equity joint venture for a period of 20 years commencing 19 April 2002. It is established in the Pudong New Area, Shanghai of the PRC and is required to pay income tax at a preferential rate of 15%.

The summarised financial information in respect of the Group’s associate is set out below:

	2006 <i>HK\$ '000</i>	2005 <i>HK\$ '000</i>
Total assets	335,268	349,386
Total liabilities	(284,292)	(124,094)
Net assets	<u>50,976</u>	<u>225,292</u>
Group’s share of net assets of an associate	<u>25,488</u>	<u>112,646</u>
Revenue	<u>22,827</u>	<u>69,029</u>
(Loss) profit for the year	<u>(174,316)</u>	<u>12,024</u>
Group’s share of results of an associate for the year	<u>(87,158)</u>	<u>6,012</u>

Under the Provisional Regulations on Land Appreciation Tax (“LAT”) implemented upon the issuance of the regulations on 27 January 1995 in the PRC, all gains arising from the transfer of real estate property in the PRC effective from 1 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 31 December 1998.

For the year ended 31 December 2005, no provision for LAT has been made in the financial statements 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.

Upon the issuance and announcement of the state regulation on 28 December 2006 and 16 January 2007, respectively, with regard to LAT, the directors of Shimao Hubin consider that it is probable that the tax authorities in the PRC will demand payment for LAT and thus LAT amounting to approximately HK\$206,475,000 was provided for the year ended 31 December 2006.

20. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Tax losses <i>HK\$'000</i>	Accelerated depreciation allowances <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	914	(4,955)	(57,348)	(61,389)
Exchange differences	17	(94)	(2,723)	(2,800)
Acquisition of subsidiary	—	—	(141,623)	(141,623)
Credit (charge) to consolidated income statement for the year	22,676	(3,096)	(73,259)	(53,679)
At 31 December 2005	23,607	(8,145)	(274,953)	(259,491)
Exchange differences	—	—	(9,322)	(9,322)
Arising on revaluation of prepaid lease payments upon transfer to investment properties	—	—	(4,500)	(4,500)
Credit (charge) to consolidated income statement for the year	5,264	5,974	18,860	30,098
At 31 December 2006	28,871	(2,171)	(269,915)	(243,215)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Deferred tax assets	28,871	21,410
Deferred tax liabilities	(272,086)	(280,901)
	(243,215)	(259,491)

At the balance sheet date, the Group had unused tax losses of HK\$211,606,000 (2005: HK\$192,986,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$164,981,000 (2005: HK\$134,901,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$46,625,000 (2005: HK\$58,085,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

A deferred tax asset of HK\$28,871,000 has been recognised with respect of tax losses of a subsidiary of the Group as this subsidiary is expected to generate future profits to utilise all tax losses upon the sale of properties.

21. PROPERTIES HELD FOR SALE

The Group has pledged its properties held for sale amounting to approximately HK\$143,633,000 (2005: Nil) to secure general banking facilities granted to the Group.

22. 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	586	—
	<u>1,268</u>	<u>816</u>

23. CURRENT ACCOUNTS WITH RELATED COMPANIES AND ULTIMATE HOLDING COMPANY

The amounts are unsecured, non-interest bearing and recoverable/repayable on demand.

Particulars of the amount due from a related company as disclosed under Section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance at 31.12.2006 <i>HK\$ '000</i>	Balance at 1.1.2006 <i>HK\$ '000</i>	Maximum amount outstanding during the year <i>HK\$ '000</i>
Beijing Jingao Real Estate Development Company Limited	<u>3,610</u>	<u>—</u>	<u>3,803</u>

Mr. Hui Wing Mau has controlling interest in this related company.

24. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.7% to 2.7% (2005: 0.7% to 2.7%).

25. 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	784	—
	<u>47,377</u>	<u>84,976</u>

26. SECURED BANK BORROWINGS

The Group has variable-rate bank borrowings which carry interest at 5.4% to 6.2% (2005: 5.53% to 5.65%) per annum and are repayable as follows:

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
On demand within one year	201,946	136,720
More than one year, but not more than two years	22,181	136,942
More than two years, but not more than three years	37,431	17,177
More than three years but not more than four years	36,530	17,426
More than four years but not more than five years	33,133	16,525
More than five years	134,717	82,849
	<u>465,938</u>	<u>407,639</u>
Less: Amount due within one year shown under current liabilities	(201,946)	(136,720)
Amount due after one year	<u><u>263,992</u></u>	<u><u>270,919</u></u>

The contracted interest rates are at 90% of Renminbi Basic Rate, Hong Kong Prime Rate minus 1.75% and Hong Kong Interbank Offer Rate plus 1.25% to 1.5%.

During the year, the Group obtained new loans totaling HK\$195,000,000 of which HK\$60,000,000 was at the Hong Kong Interbank Offer Rate plus 1.25% and the remaining amount was at 90% of Renminbi Basic Rate. The new loans amounting to HK\$60,000,000 will be repayable within one year and the remaining amount will be repayable by instalments and fully repayable in 2016. The proceeds were used to finance the construction of property, plant and equipment.

The borrowings are secured by certain of its investment properties, buildings, prepaid lease payments, and properties held for sale of the Group (notes 16, 17, 18 and 21) and guaranteed by a director of the group (note 35).

27. SHARE CAPITAL

	2006 & 2005
	<i>HK\$ '000</i>
Authorised:	
10,000,000,000 ordinary shares of HK\$0.1 each	<u>1,000,000</u>
Issued and fully paid:	
827,639,886 ordinary shares of HK\$0.1 each	<u>82,764</u>

28. PROMISSORY NOTES

The Company issued promissory notes to a related company, Dynamic Keen Development Limited (“Dynamic Keen”), a company controlled by Mr. Hui Wing Mau with principal amount of HK\$246,220,000 on 24 June 2005. It is unsecured, bears interest at 2% per annum and wholly repayable on 24 June 2009. During the year, HK\$350,000 (2005: HK\$92,000,000) was repaid and the outstanding balance at 31 December 2006 is of principal amount of HK\$153,870,000 (2005: HK\$154,220,000).

The fair value of the promissory notes at 31 December 2006 is calculated using cash flows discounted at a rate based on the borrowings rate of 6.37%. The directors consider that the carrying amount of promissory note approximates to the fair value.

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

29. CONVERTIBLE NOTE

The Company issued redeemable convertible note in the aggregate amount of HK\$250,000,000 on 24 June 2005 to a related company, Dynamic Keen. The convertible note is denominated in Hong Kong dollars. The note bears interest at 1% per annum and will mature on 24 June 2007 at their nominal value of HK\$250,000,000. The note entitles the holder to convert the note into the Company’s shares at a conversion price of HK\$1.35 per share after 24 June 2006, or redeemable at the option of the Company.

The convertible note primarily contains two components, liability and equity. The equity component is presented in equity heading “convertible note equity reserve”. The effective interest rate of the liability component is 4.94%.

The movement of the liability component of the convertible note for the year is set out below:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at the beginning of the year	236,134	—
Issued during the year	—	231,660
Interest charge	11,670	5,724
Interest payable	(2,500)	(1,250)
	<u>245,304</u>	<u>236,134</u>
Carrying amount at the end of the year	<u>245,304</u>	<u>236,134</u>

30. AMOUNT RECEIVED FROM SUIFENHE LAND RESERVE CENTRE

Pursuant to two agreements dated 18 March 2004 and 21 July 2004, the Group was appointed to construct the ancillary facilities and infrastructure in the area of the Intertrading Zone on behalf of the Municipality of Suifenhe, the PRC. An aggregate balance of HK\$131,795,000 was received in advance from Suifenhe Land Reserve Centre (“SLRC”), which is 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\$131,795,000. 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\$126,588,000 (2005: HK\$127,686,000). This estimation will be revised on a timely basis as more construction contracts are entered into and the development progresses.

31. SHARE OPTIONS

The Company’s share option scheme (the “Scheme”), was adopted pursuant to a resolution passed on 13 June 2005 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 12 June 2015. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 32,470,000 (2005: Nil), representing approximately 3.9% (2005: Nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of adoption of the scheme. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders.

A consideration of HK\$1 is payable on the grant of an option. According to the resolution passed, there is a requirement to hold the option for a certain period before it can be exercised. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company’s shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s shares.

Details of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise Price
2006	8 August 2006	8 August 2006 to 31 March 2007	1 April 2007 to 31 March 2012	HK\$0.59 per share

The following table discloses movements of the number of share options held by directors and employees during the year:

Option type	Outstanding at 1 January 2006	Granted during the year	Outstanding at 31 December 2006
Held by directors: 2006	—	20,420,000	20,420,000
Held by employees: 2006	—	12,050,000	12,050,000
	—	32,470,000	32,470,000
Exercisable at the end of the year			—
Weighted average exercise price			HK\$0.59

No options were exercised or lapsed during the year.

The estimated fair values of the options granted is HK\$4,157,000 of which HK\$2,572,000 was charged to the consolidated income statement during the year.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	2006
Exercise price and closing share price immediately before and at the date of grant	HK\$0.59
Expected volatility	40%
Life of the option	5.65 years
Annual risk-free rate	4.337%
Expected dividend yield	5%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share average prices of the Company over one year immediately preceding the grant date. The calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the underlying shares.

Life of the options represents the period from date of grant to expiry date of share options.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

32. CAPITAL COMMITMENTS

	2006 HK\$ '000	2005 HK\$ '000
Capital expenditure in respect of properties development and properties investment in the PRC contracted for but not provided in the consolidated financial statements	12,289	186,682

33. OPERATING LEASE

Property rental income earned during the year was approximately HK\$14,186,000 (2005: HK\$13,987,000). All of the properties held have committed tenants for 0.5 to 20 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006 <i>HK\$ '000</i>	2005 <i>HK\$ '000</i>
Within one year	10,598	7,544
In the second to fifth year inclusive	21,968	15,776
After five years	29,030	15,077
	<u>61,596</u>	<u>38,397</u>

34. RETIREMENT BENEFIT SCHEMES

The Group participates in a Mandatory Provident Fund Scheme (the “MPF Scheme”) under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance for all employees in Hong Kong since 1 December 2000.

The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees’ relevant aggregate income.

The employees of the Group’s subsidiaries which operate in the PRC are members of a state-managed retirement benefit scheme operated by the local government. These PRC subsidiaries are required to contribute 22% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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

The total cost charged to the consolidated income statement amounting to HK\$687,000 (2005: HK\$535,000) represents contributions paid or payable to these schemes by the Group in respect of the current accounting period.

35. RELATED PARTY TRANSACTIONS

(a) During the year, Group entered into the following transactions with related parties:

Nature of transactions	Relationship	2006 <i>HK\$ '000</i>	2005 <i>HK\$ '000</i>
Rental income received from Shimao Property Holdings Limited (“Shimao Property”)	<i>Note (i)</i>	<u>997</u>	<u>—</u>

Note:

- (i) The Chairman of the Group is also the Chairman of Shimao Property.
- (b) On 20 April 2006, the Group obtained an additional unsecured revolving facility of HK\$100,000,000 from the ultimate holding company for a period of 6 months. This facility was not utilised as at balance sheet date.
- (c) A director of the Company has given guarantees to banks amounting to HK\$520,700,000 for banking facilities granted to the Group.

(d) Compensation of key management personnel

The remuneration of directors during the year was set out in note 13 which is determined by reference to the performance of individuals and market trends.

Details of balances with related parties and transactions other than above are set out in the consolidated balance sheet on pages 65 and 66 and notes 23, 28, 29 and 38.

36. BALANCE SHEET OF THE COMPANY

	2006	2005
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Non-current Assets		
Investments in subsidiaries	253,188	253,188
Current Assets		
Amounts due from subsidiaries	849,028	668,014
Other receivables	175	171
Bank balances and cash	1,343	3,165
	<u>850,546</u>	<u>671,350</u>
Current Liabilities		
Other payables	1,548	1,747
Amount due to ultimate holding company	198,003	40
Amounts due to subsidiaries	149	7,107
Amount due to a related company	8,797	3,220
Convertible note	245,304	—
	<u>453,801</u>	<u>12,114</u>
Net Current Assets	<u>396,745</u>	<u>659,236</u>
Total Assets less Current Liabilities	<u>649,933</u>	<u>912,424</u>
Capital and Reserves		
Share capital	82,764	82,764
Reserves	426,329	457,099
Total equity	<u>509,093</u>	<u>539,863</u>
Non-Current Liabilities		
Promissory notes	140,839	136,427
Convertible note	—	236,134
	<u>140,839</u>	<u>372,561</u>
	<u>649,932</u>	<u>912,424</u>

37. INVESTMENTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration/ establishment	Paid up issued ordinary share/ registered capital	Proportion ownership interest held by the Company		Principal activities
			Directly	Indirectly	
Champ Master Management Limited	Hong Kong	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	British Virgin Islands ("BVI")	US\$1	—	100%	Property investment and development
Shimao HK Management Company Limited	Hong Kong	HK\$2	100%	—	Management services
Shimao (Hong Kong) Investment Limited	BVI	US\$1	—	100%	Property holding
Suifenhe Shimao Development & Construction Company Limited (note (b))	PRC	US\$29,800,000	—	100%	Property investment and development
Value Ahead Investments Limited	BVI	US\$1	100%	—	Investment holding
Vast Union Investments Limited	BVI	US\$1	100%	—	Investment holding

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

- (a) Established as a wholly-owned foreign enterprise for a period of 20 years commencing 2 December 1992.
- (b) Established as a wholly-owned foreign enterprise for a period of 40 years commencing 13 April 2004.

None of the subsidiaries had issued any debt securities at the end of the year.

38. ACQUISITION OF A SUBSIDIARY

On 24 June 2005, the Group acquired 100% of the interest in a subsidiary for a consideration of HK\$496,220,000, satisfied by way of issuance of promissory notes (note 28) and convertible note (note 29) with a nominal value of HK\$246,220,000 and HK\$250,000,000 respectively.

The net assets acquired in the transaction are as follows:

	Carrying amount	Fair value adjustment	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	97,709	—	97,709
Prepaid lease payments	235,596	427,021	662,617
Property under development	40,302	30,433	70,735
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	(11,360)	—	(11,360)
Tax liabilities	—	(30,809)	(30,809)
Amount received from Suifenhe Land Reserve Centre	(114,065)	—	(114,065)
Deferred tax liabilities	—	(141,623)	(141,623)
Net assets acquired	<u>180,753</u>	<u>285,022</u>	<u>465,775</u>
Satisfied by consideration at fair value			
Promissory notes			214,190
Convertible note			
— Equity component			1,949
— Liability component			231,660
			<u>447,799</u>
Excess of fair values of net assets acquired over cost of acquisition			<u>17,976</u>

Excess arose because the project will only bring future benefit to this area after several years from the date of acquisition on completion of property under development. Accordingly, the consideration paid was at a discount.

This subsidiary 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 31 December 2005. If the acquisition had occurred on 1 January 2005, the revenue and net profit of this subsidiary would have been HK\$10,000 and HK\$118,699,000 (include fair value gain on investment properties) respectively for the year ended 31 December 2005. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of further results.

39. COMPARATIVE FIGURES

As described in note 30, the Group's engaged to carry out certain construction work on behalf of the Municipality of Suifenhe. Expenditure incurred for such construction work shall be offset against the "Amounts received from Suifenhe Land Reserve Centre". As at 31 December 2005, HK\$10,594,000 incurred on such construction work was inadvertently debited to "Properties held for sale". Accordingly, the comparative figures in respect of "Properties held for sale" and "Amounts received from Suifenhe Land Reserve Centre" have been restated in the current year's financial statements.

40. POST BALANCE SHEET EVENT

On 22 February 2007, the Group obtained a bank loan of HK\$77,000,000 which is secured by investment properties of HK\$52,500,000, property, plant and equipment of HK\$5,310,000, prepaid lease payments of HK\$18,588,000 and the assignment of rental income of the corresponding investment properties. In addition, a corporate guarantee of HK\$77,000,000 was given by the Company to the bank. The loan will be repayable by monthly instalment and fully repayable in 2022.

3. INDEBTEDNESS

At the close of business on 31 March 2007, being the latest practicable date prior to the printing of this document, the Group had outstanding bank borrowings of approximately HK\$754.3 million (which were secured by fixed charges on certain of the Group's assets, including properties and short-term bank deposits) representing mortgage loans, revolving loans and instalment loans. In addition, the Group had outstanding at that date convertible note, promissory note, accrued note interest and amount due to immediate holding company, Perfect Zone International Limited, of approximately HK\$247.6 million, HK\$142.1 million, HK\$8.8 million and HK\$90.3 million respectively.

The Group's banking facilities are also secured by personal guarantees given by a director.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 March 2007 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 March 2007.

4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

5. STATEMENT OF ADJUSTED NET ASSET VALUE

Set out below is a statement of the adjusted net asset value of the Group which has been prepared based on the audited net assets of the Group as at 31 December 2006 after taking into account the effect of the net surplus arising from the valuation of all the property interests held by the Group as at 31 March 2007 net of potential tax liabilities attributable to the Group and the purpose of which is for reference only.

	<i>HK\$'000</i>
Audited net asset value of the Group as at 31 December 2006 (Note 1)	629,273
Adjustments: Net surplus arising from the valuation of property interests attributable to the Group as at 31 March 2007 (Note 2), net of tax adjustments (Note 3)	<u>452,423</u>
Adjusted net asset value of the Group	<u><u>1,081,696</u></u>
Adjusted net asset value per Share (Based on 827,639,886 Shares in issue as at the Latest Practicable Date)	<u><u>HK\$1.31</u></u>

Notes:

1. The audited net asset value of the Group as at 31 December 2006 recorded the market value of the investment properties and the costs of the properties, plant and equipment, the prepaid lease payments and the properties held for sale in accordance with all applicable Hong Kong Financial Reporting Standards.
2. Savills in accordance with the requirement of Rule 11.1(f) of the Takeovers Code has performed valuations of all the property interests held by the Group. The net surplus in the amount of approximately HK\$559,267,000 is arrived at after deducting the carrying values of the investment properties, the property, plant and equipment, the prepaid lease payments and the properties held for sale as recorded in the books of the Group as at 31 December 2006.
3. This represents the net deferred tax liabilities of HK\$106,844,000 attributable to the Group provided on the revaluation of properties.

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this document received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their valuation as at 31 March 2007 of the property interests of the Group.



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Savills.com

4 June 2007

Dear Sirs

In accordance with your instructions for us to value the properties (the “properties”) held by Shimao International Holdings Limited (hereinafter referred to as the “Company”) and its subsidiaries (hereinafter referred to as the “Group”) in the People’s Republic of China (“PRC”) and Hong Kong, 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 values of such properties as at 31 March 2007 for the purpose of incorporation in a circular issued by the Company.

Our valuation of each of the properties represent its 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”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

Our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (1st Edition January 2005) published by The Hong Kong Institute of Surveyors.

We have valued the properties by reference to sales evidence as available on the market and where appropriate on the basis of capitalisation of the current net income shown on the documents handed to us. We have allowed for outgoings and, in appropriate cases, made provisions for reversionary income potential.

We have been provided with copies of the title documents relating to the properties situated in the PRC. However, we have not inspected the original documents to verify the ownership or to ascertain the existence of any amendments that may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Company and its legal advisers on PRC law, Genesis Law Firm, regarding the titles and other legal matters relating to the properties situated in the PRC.

We have not been provided with any title document relating to the properties situated in Hong Kong but we have caused searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to verify any amendments which do not appear on the copies obtained by us.

We have relied to a considerable extent on information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, development proposal, accounting information, management reports, business plans, identification of the properties, site and floor areas, and other relevant information. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to our valuation. We were also advised that no material facts have been omitted from the information supplied.

We have inspected the exterior and, where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made, we are therefore unable to report that the properties are free from rot, infestation or any other structural defect. No tests were carried out on any of the services. We have not carried out any site investigations to determine the suitability of the ground conditions and the services etc, for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any properties nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that all the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In preparing our valuation report, we have complied with the requirements contained within the provisions of Rule 11 of The Codes on Takeovers and Mergers issued by the Securities and Futures Commission.

Unless otherwise stated, all money amounts are stated in Hong Kong dollars. The exchange rate adopted in our valuation is approximately HK\$1= RMB0.9899, which was the approximate exchange rate prevailing as at the date of valuation and there has been no significant fluctuation in such exchange rate between that date and the date of this letter.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCI Arb RPS(GP)
Managing Director

Note: Charles C K Chan, Chartered Estate Surveyor, MSc, FRICS, FHKIS, MCI Arb, RPS(GP), has about 17 years of experience in the valuation of properties in the PRC and about 22 years of experience in the valuation of properties in Hong Kong.

SUMMARY OF VALUES

Group I — Properties held and occupied by the Group in Hong Kong

No.	Property	Market value in existing state as at 31 March 2007
1.	21A, 21B and 23 Severn Road, The Peak, Hong Kong	HK\$936,000,000
2.	Units 4307, 4308, 4309, 4310, 4311 and 4312 on 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong	HK\$107,000,000
		Sub-total: HK\$1,043,000,000

Group II — Properties held by the Group for investment in the PRC

3.	Various shop units, Epoch Centre Phase II, 31 Zhizhuyuan Road, Haidian District, Beijing, The PRC	HK\$100,000,000
4.	Various shop units and car parking spaces, Dong Fang Hong Shopping Centre, Binhe East Road, Lanzhou, Gansu Province, The PRC	HK\$136,000,000
5.	Unsold portion of First Phase of Shimao International Commercial and Exhibition Centre, Pogranichny – Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	HK\$688,000,000

No. Property	Market value in existing state as at 31 March 2007
6. Holiday Inn Suifenhe, 2 Youyi Road, Pogranichny – Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	HK\$280,000,000
	<hr/>
Sub-total:	<u>HK\$1,204,000,000</u>
 Group III — Property held by the Group for future development in the PRC	
7. A piece of land (Lot No.: BY-(20)-47 and portion of Lot No.: BY-(20)-48) to the North of National Highway 301, Pogranichny — Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	HK\$340,000,000
	<hr/>
Sub-total:	<u>HK\$340,000,000</u>
Grand total:	<u><u>HK\$2,587,000,000</u></u>

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
1.	21A, 21B and 23 Severn Road, The Peak, Hong Kong	“21A Severn Road” comprises a site with an area of approximately 1,024.00 sq m (11,022 sq ft).	“23 Severn Road” is occupied by the Group for corporate uses.	HK\$936,000,000
	Section A, Section B and The Remaining Portion of Rural Building Lot No. 515	Currently standing on the site is a 3-storey detached house (Ground to Second Floors) completed in 2004 with a gross floor area of approximately 398.46 sq m (4,289 sq ft). The house also comprises 2 carparking spaces and recreation area of approximately 191.29 sq m (2,059 sq ft) on the Lower Ground Floor together with garden area.	The remainder of the property is vacant as at the date of valuation.	
		“21B Severn Road” comprises a site with an area of approximately 969.00 sq m (10,430 sq ft).		
		Currently standing on the site is a 3-storey detached house (Ground to Second Floors) completed in 2004 with a gross floor area of approximately 400.97 sq m (4,316 sq ft). The house also comprises 2 carparking spaces and recreation area of approximately 192.49 sq m (2,072 sq ft) on the Lower Ground Floor together with garden area.		
		“23 Severn Road” comprises a site with an area of approximately 3,250 sq m (34,983 sq ft).		
		Currently standing on the site is a 4-storey detached house completed in about 1989 with a gross floor area of approximately 1,821.79 sq m (19,610 sq ft) together with vast open space and parking areas. According to the information provided to us, the 4-storey detached house is substantially renovated in 2003.		
		Rural Building Lot No. 515 is held under a Government lease for a term of 75 years commencing from 1 March 1948 renewable for a further term of 75 years at an annual Government rent of HK\$1,296.		

Notes:

- (1) The registered owner of the property is Shimao (Genesis) Company Limited, a wholly-owned subsidiary of the Company.
- (2) The property is subject to a mortgage to secure general banking facilities and an assignment of rent both in favour of Bank of Communications.
- (3) The property is subject to a modification letter (Remarks: re RBL 515).
- (4) The property is subject to a second mortgage and an assignment of rentals both in favour of Bank of Communications Co., Ltd.
- (5) The property lies within an area zoned “Residential (Group C) 3” on the Peak Area Outline Zoning Plan No. S/H14/7 dated 9 December 2003.
- (6) According to the information provided by the management of the Company, the property at the time of disposal at the amount of its market value as at 31 March 2007 will be subject to profits tax (17.5%).

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
2.	Units 4307, 4308, 4309, 4310, 4311 and 4312 on 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong 11,610/20,709th equal and undivided shares of 20,709/4,000,000th equal and undivided shares of and in Inland Lot No. 8593	Convention Plaza's Office Tower is a 39-storey commercial building completed in 1990. It is a part of a composite development known as Hong Kong Convention and Exhibition Centre, which comprises 1 office tower, 2 hotels, 1 serviced apartment building and a podium accommodating convention and exhibition facilities. The property comprises six office units on the 43rd Floor of the office tower with a total gross area of approximately 930.89 sq m (10,020 sq ft). Inland Lot No. 8593 is held under Conditions of Grant No. UB11784 for a term of 75 years commencing from 19 February 1985 at an annual Government rent at HK\$1,000.	The property is occupied by the Group as office.	HK\$107,000,000

Notes :

- (1) The registered owner of the property is Shimao (Hong Kong) Investment Limited, a wholly-owned subsidiary of the Company.
- (2) The property is subject to a mortgage to secure banking facilities in favour of Dah Sing Bank, Limited.
- (3) The property is subject to an assignment of rental and sales proceeds in favour of Dah Sing Bank, Limited.
- (4) The property lies within an area zoned "Other Specified Uses (Exhibition Centre with Commercial Development)" on Wan Chai North Outline Zoning Plan No. S/H25/1 dated 19 April 2002.
- (5) According to the information provided by the management of the Company, the property at the time of disposal at the amount of its market value as at 31 March 2007 will be subject to profits tax (17.5%).

VALUATION CERTIFICATE

GROUP II — Properties held by the Group for investment in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
3.	Various shop units, Epoch Centre Phase II, 31 Zhizhuyuan Road, Haidian District, Beijing, The PRC	Epoch Centre is a commercial development comprising an office tower erected over a 2-storey shopping arcade and a 2-level commercial basement completed in 2000. The property comprises seven shop units on Level 1 and 11 shop units on Level 2 of Epoch Centre Phase II. The property has a total gross floor area of approximately 4,709.82 sq m (50,697 sq ft). The land use rights of the property have been granted for a term of 50 years expiring on 19 November 2047 for commercial uses.	The property is let to various tenants yielding a total monthly rental of about RMB387,000 exclusive of management fees and utility charges.	HK\$100,000,000

Notes:

- (1) According to the two State-owned Land Use Rights Certificate Nos. Jing Shi Hai Gang Ao Tai Zi 2110201 and 2110202 both issued by Beijing State-owned Land Resources Bureau, the land use rights of the property have been granted to Champ Master Management Limited (卓萬管理有限公司) (“Champ Master”) for a term of 50 years expiring on 19 November 2047 for commercial uses.

As advised by the Group, Champ Master is a wholly-owned subsidiary of the Company.

- (2) According to two Building Ownership Certificate Nos. Jing Fang Quan Zheng Shi Hai Gang Ao Tai Zi 2110201 and 2110202 both issued by Beijing Construction Committee, the building ownership of the property with a total gross floor area of 4,709.82 sq m is vested in Champ Master.
- (3) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal advisers, which contains, inter alia, the following information:
- (i) Champ Master has obtained the relevant Building Ownership Certificates and State-owned Land Use Rights Certificates of the property; and
 - (ii) Champ Master can use and occupy the property legally and is entitled to transfer, lease, mortgage or dispose of the property by any other legal means.
- (4) According to the information provided by the management of the Company, the property at the time of disposal at the amount of its market value as at 31 March 2007 will be subject to Land Appreciation Tax (LAT). The tax rate is progressive and ranges from 30% to 60% of the appreciation value. The precise tax application will be subject to local government agencies, prevailing rules and regulations at the time of disposal.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
4.	Various shop units and car parking spaces, Dong Fang Hong Shopping Centre, Binhe East Road, Lanzhou, Gansu Province, The PRC	Dong Fang Hong Shopping Centre is a 3-storey commercial development which mainly consists of shop units completed in 1996. The property comprises the whole of Level 1, portions of Basement 1 and Basement 2 of Dong Fang Hong Shopping Centre. The property also comprises 6 car parking spaces in the basement.	Portion of the property is subject to various tenancies with a majority term of half to one year with the latest one expiring on 31 December 2013 at a total monthly rental of about RMB755,000, exclusive of management fee.	HK\$136,000,000

In accordance with the information provided by the Group, the property has a total gross floor area of approximately 25,311.47 sq m (272,452 sq ft) with breakdown listed as follows:

Level	Approximate Gross Floor Area	
	(sq m)	(sq ft)
Level 1	2,373.50	25,548
Basement	<u>22,937.97</u>	<u>246,904</u>
Total:	<u>25,311.47</u>	<u>272,452</u>

The land use rights of the property have been granted for a term of 50 years for commercial uses.

Notes:

- (1) According to State-owned Land Use Rights Certificate No. Lan Guo Yong (1993) Zi 007 dated 8 September 1993, issued by the Municipal Government of Lanzhou, the land use rights of the property have been granted to Lanzhou Xinglong Real Estate Development Co., Ltd. ("Lanzhou Xinglong") for a term of 50 years for commercial uses.

As advised by the Group, Lanzhou Xinglong is a wholly-owned subsidiary of the Company.

- (2) According to two Building Ownership Certificate Nos. Lan Fang (Cheng He) Chan Zi Di 25746 and 57722, the building ownership of the property is held by Lanzhou Xinglong.

- (3) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:
- (i) Lanzhou Xinglong has obtained the relevant Building Ownership Certificates and State-owned Land Use Rights Certificate of the property; and
 - (ii) Lanzhou Xinglong can use and occupy the property legally and is entitled to transfer, lease, mortgage or dispose of the property by any other legal means.
- (4) **According to the information provided by the management of the Company, the property at the time of disposal at the amount of its market value as at 31 March 2007 will be subject to Land Appreciation Tax (LAT). The tax rate is progressive and ranges from 30% to 60% of the appreciation value. The precise tax application will be subject to local government agencies, prevailing rules and regulations at the time of disposal.**

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
5.	Unsold portion of First Phase of Shimao International Commercial and Exhibition, Pogradichny — Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	<p>First Phase of Shimao International Commercial and Exhibition Centre (世茂國際商展中心一期) comprises a 4-storey commercial building (the “Commercial Building”) erected on a site with an area of approximately 38,010 sq m (409,140 sq ft) completed in 2005. The Commercial Building has a total gross floor area of approximately 88,592.66 sq m (953,611 sq ft).</p> <p>The property comprises the unsold portion of the Commercial Building with a total gross floor area of approximately 81,966.44 sq m (882,287 sq ft).</p> <p>The land use rights of the property have been granted for a term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044 for commercial uses.</p>	<p>Portion of the property is subject to various tenancies mostly for terms of 2 years commencing from mid 2006 yielding a total monthly rental of about RMB905,000, exclusive of management fee.</p> <p>Level 4 of the property is currently occupied by the Group as office whilst the remaining portion is vacant.</p>	HK\$688,000,000

Notes:

- (1) According to State-owned Land Use Rights Certificate No. Sui Guo Yong (2004) Zi Di 0234 dated 21 July 2004 issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), the land use rights of a parcel of land (Lot No. By-(20)-48) with an area of 414,997 sq.m., have been granted to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) (“Suifenhe Shimao”) for a term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044 for commercial uses.

As advised by the Group, the land of the Commercial Building forms part of the land as stipulated in the aforesaid State-owned Land Use Rights Certificate with a site area of approximately 38,010 sq.m., and Suifenhe Shimao is a wholly-owned subsidiary of the Company.

- (2) According to Building Ownership Certificate No. Sui Feng He Fang Quan Zheng Sui Zi 03725 issued by Suifenhe City Real Estate Administrative Bureau, the building ownership of a commercial building with a total gross floor area of 88,592.66 sq m is held by Suifenhe Shimao.

As advised, the property comprises the unsold portion of the said commercial building with a total gross floor area of approximately 81,966.44 sq m.

- (3) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal advisers, which contains, inter alia, the following information:
- (i) Suifenhe Shimao has obtained the relevant Building Ownership Certificate and State-owned Land Use Rights Certificate of the property; and
 - (ii) Suifenhe Shimao can use and occupy the property legally and is entitled to transfer, lease, mortgage or dispose of the property by any other legal means.

- (4) According to the information provided by the management of the Company, the property at the time of disposal at the amount of its market value as at 31 March 2007 will be subject to Land Appreciation Tax (LAT). The tax rate is progressive and ranges from 30% to 60% of the appreciation value. The precise tax application will be subject to local government agencies, prevailing rules and regulations at the time of disposal.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
6.	Holiday Inn Suifenhe, 2 Youyi Road, Pogranichny — Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	<p>The property comprises a 5-star hotel erected on a site with an area of approximately 33,924 sq m (365,158 sq ft).</p> <p>The hotel comprises a 6-storey hotel building with about 354 guest rooms erected over one podium floor and one basement floor, with restaurants, car parking spaces and other ancillary facilities provided therein.</p> <p>The property has a total gross floor area of approximately 49,206.81 sq m (529,662 sq ft) and was completed in August 2006.</p> <p>The land use rights of the property have been granted for a term of 40 years expiring on 14 April 2044 for commercial uses.</p>	The property is occupied and operated by the Group as a 5-star hotel.	HK\$280,000,000

Notes:

- (1) According to the State-owned Land Use Rights Certificate No. Sui Guo Yong (2004) Zi Di 0234 dated 21 July 2004 issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), the land use rights of a parcel of land (Lot No. BY-(20)-48) with an area of 414,997 sq m, have been granted to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) (“Suifenhe Shimao”) for a term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044 for commercial uses.

As advised by the Group, the land of the property forms part of the land as stipulated in the aforesaid State-owned Land Use Rights Certificate with a site area of approximately 33,924 sq.m., and Suifenhe Shimao is a wholly-owned subsidiary of the Company.

- (2) According to Building Ownership Certificate No. Sui Feng He Fang Quan Zheng Sui Zi 04187 issued by Suifenhe City Real Estate Administrative Bureau, the building ownership of the property with a total gross floor area of 49,206.81 sq m is held by Suifenhe Shimao.
- (3) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal advisers, which contains, inter alia, the following information:
- (i) Suifenhe Shimao has obtained the relevant Building Ownership Certificate and State-owned Land Use Rights Certificate of the property; and
 - (ii) Suifenhe Shimao can use and occupy the property legally and is entitled to transfer, lease, mortgage or dispose of the property by any other legal means.
- (4) According to the information provided by the management of the Company, the property at the time of disposal at the amount of its market value as at 31 March 2007 will be subject to Land Appreciation Tax (LAT). The tax rate is progressive and ranges from 30% to 60% of the appreciation value. The precise tax application will be subject to local government agencies, prevailing rules and regulations at the time of disposal.

VALUATION CERTIFICATE

Group III — Property held by the Group for future development in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
7.	A piece of land (Lot No.: BY-(20)-47 and portion of Lot No.: BY-(20)-48) situated to the North of National Highway 301, Pogranichny — Suifenhe Intertrading Economic Zone, Municipality of Suifenhe, Heilongjiang Province, The PRC	<p>The property comprises portion of two parcels of contiguous land with a total site area of approximately 650,890.50 sq m (7,006,185 sq ft).</p> <p>According to the preliminary development proposal provided, the property is intended to be developed into a commercial and trade centre, a 3-star hotel, a shopping arcade and an office building. Upon completion, the total gross floor area of the proposed development is estimated to be approximately 218,500 sq m (2,351,934 sq ft).</p> <p>As advised, the Group does not have a plan to develop the property in the near future and thus it has no time schedule for the proposed development.</p> <p>The land of the property, Lot Nos. BY-(20)-47 and BY-(20)-48, is held under land use rights for terms expiring on 18 March 2044 and 14 April 2044 respectively, both for commercial uses.</p>	The property is currently a vacant land.	HK\$340,000,000

Notes:

- (1) According to the State-owned Land Use Rights Certificate No. Sui Guo Yong (2004) Zi Di LS002 dated 14 April 2004 issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), the land use rights of a parcel of land (Lot No. BY-(20)-47) with an area of 307,827.50 sq m, have been granted to Suifenhe Shimao Development and Construction Company Limited (綏芬河世茂開發建設有限公司) (“Suifenhe Shimao”) for a term of 40 years commencing on 15 April 2004 and expiring on 18 March 2044 for commercial uses.

As advised by the Company, Suifenhe Shimao is a wholly-owned subsidiary of the Company.

- (2) According to the State-owned Land Use Rights Certificate No. Sui Guo Yong (2004) Zi Di 0234 dated 21 July 2004 issued by State-owned Land Resources Bureau of Suifenhe (綏芬河市國土資源局), the land use rights of a parcel of land (Lot No. BY-(20)-48) with an area of 414,997 sq m, have been granted to Suifenhe Shimao for a term of 40 years commencing on 15 April 2004 and expiring on 14 April 2044 for commercial uses.

As advised by the Group, the land of the property forms part of the land as stipulated in the aforesaid State-owned Land Use Rights Certificate with a site area of approximately 343,063 sq.m.

- (3) The capital value of the property as if it is completed according to the preliminary development proposal as at 31 March 2007 is RMB1,820,000,000. As advised by the Group, the total estimated construction costs of the property is about RMB763,000,000.
- (4) As advised by the Group, the preliminary development proposal of the property has not been approved by the Government authorities.

- (5) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:
- (i) Suifenhe Shimao has obtained the relevant State-owned Land Use Rights Certificates of the property; and
 - (ii) Suifenhe Shimao can use and occupy the property legally and is entitled to the right to transfer, lease, mortgage or dispose of the property by any other legal means.
- (6) **According to the information provided by the management of the Company, the property at the time of disposal at the amount of its market value as at 31 March 2007 will be subject to Land Appreciation Tax (LAT). The tax rate is progressive and ranges from 30% to 60% of the appreciation value. The precise tax application will be subject to local government agencies, prevailing rules and regulations at the time of disposal.**

1. RESPONSIBILITY STATEMENT

This document 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 full responsibility for the accuracy of the information contained in this document (other than that in relation to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than that in relation to the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this document (other than that in relation to the Offeror), the omission of which would make any statements in this document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information in relation to the Offeror contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document of or in relation to the Offeror have been arrived at after due and careful consideration and there are no other facts not contained in this document in relation to the Offeror, the omission of which would make any statement in this document misleading.

2. CORPORATE INFORMATION OF THE COMPANY

The Company was incorporated in Bermuda with limited liability. Its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its head office and principal place of business in Hong Kong is at Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. The company secretary and the qualified accountant of the Company is Mr. Yau Kwan Shan, FCCA, FCPA. The branch share registrar of the Company in Hong Kong is Tengis Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

3. SHARE CAPITAL OF THE COMPANY**Authorised and issued share capital**

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Shares		HK\$
<i>Authorised:</i>		
10,000,000,000	Authorised share capital of HK\$1,000,000,000 divided into 10,000,000,000 Shares	1,000,000,000
<i>Issued and fully paid:</i>		
827,639,886	Paid up share capital of HK\$82,763,988.60 divided into 827,639,886 Shares	82,763,988.60

No new Shares has been issued by the Company since 31 December 2006 (being the date to which its latest published audited accounts were prepared). All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital.

Save as 31,000,000 outstanding Options granted under the Share Option Scheme and the Convertible Note with an outstanding principal amount of HK\$250,000,000 entitling the holder to convert into a total of 185,185,185 new Shares (based on the initial conversion price of HK\$1.35 per Share under the terms of the Convertible Note), as at the Latest Practicable Date, the Company did not have any outstanding warrants, options, derivatives or other securities carrying rights of conversion into or exchange or subscription for Shares.

4. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of SFO); or (ii) to be entered in the register referred to therein pursuant to Section 352 of SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules; or (iv) to be disclosed in this document pursuant to the requirements of the Takeovers Code, were as follows:

(i) Long positions in the Shares

Name of Director	Number of Shares held		Total
	Corporate Interests	Other Interests	
Mr. Hui	185,185,185 <i>(Note 1)</i>	618,571,397 <i>(Note 2)</i>	803,756,582
Ms. Hui Mei Mei, Carol	—	618,571,397 <i>(Note 2)</i>	618,571,397

Notes:

- (1) These 185,185,185 Shares are the potential Shares which are issuable to Dynamic Keen assuming full conversion of the Convertible Note. Since the entire issued share capital of Dynamic Keen is wholly-owned by Mr. Hui, Mr. Hui is taken to be interested in these 185,185,185 Shares under the SFO.
- (2) The interests disclosed represent the interests in the Company which are held by the Offeror, 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 Trust Company (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. Ms. Hui Mei Mei, Carol is the daughter of Mr. Hui and accordingly, Mr. Hui and Ms. Hui Mei Mei, Carol are deemed to be interested in these 618,571,397 Shares by virtue of section 345(4) of the SFO.

(ii) Long positions in the underlying Shares

As at the Latest Practicable Date, the following Directors had the following interests in the Options:—

Name of Directors	Date of grant	Exercise price per Share	Exercise period	Number of Options as at the Latest Practicable Date	Number of underlying Shares
Ms. Hui Mei Mei, Carol	8 August 2006	HK\$0.59	1 April 2007 – 30 March 2012	8,270,000	8,270,000
Mr. Tung Chi Shing	8 August 2006	HK\$0.59	1 April 2007 – 30 March 2012	8,270,000	8,270,000
Mr. Chan Loo Shya	8 August 2006	HK\$0.59	1 April 2007 – 30 March 2012	3,880,000	3,880,000
				20,420,000	20,420,000

(iii) Long positions in the shares of associated corporation

- *Shimao Property Holdings Limited (stock code: 813) (“SPHL”), the shares of which are listed on the Stock Exchange*

Name of Director	Number of shares held
Mr. Hui	1,912,615,500 (<i>Note</i>)

Note: These 1,912,615,500 shares represent the interests in SPHL held by Gemfair Investments Limited, a company directly wholly-owned by Mr. Hui.

Save as disclosed above, as at the Latest Practicable Date none of the directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of SFO); or (ii) to be entered in the register referred to therein pursuant to Section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules; or (iv) to be disclosed in this document pursuant to the requirements of the Takeovers Code.

(b) Substantial Shareholders' interests and short positions in the securities of 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) had 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 who was directly or indirectly, interested in 10% 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	Approximate percentage of issued share capital
Dynamic Keen	185,185,185 (<i>Note 1</i>)	22.38%
The Offeror	618,571,397 (<i>Note 2</i>)	74.74%
Overseas Investment Group International Limited	618,571,397 (<i>Note 2</i>)	74.74%
Trident Trust Company (B.V.I.) Limited	618,571,397 (<i>Note 2</i>)	74.74%

Notes:

- (1) These 185,185,185 Shares are the potential Shares which are issuable to Dynamic Keen assuming full conversion of the Convertible Note. Since the entire issued share capital of Dynamic Keen is wholly-owned by Mr. Hui, Mr. Hui is taken to be interested in these 185,185,185 Shares under the SFO. Mr. Hui and Ms. Hui Mei Mei, Carol, both being Directors, are also directors of Dynamic Keen.
- (2) The interests disclosed represent the interests in the Company held by the Offeror, 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 Trust Company (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. Mr. Hui and Ms. Hui Mei Mei, Carol, both being Directors, are also directors of the Offeror.

Save as disclosed above, the Directors 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 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 who was directly or indirectly, interested in 10% 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.

(c) Service contracts

Mr. Hui has entered into a service contract with SPHL, which is deemed to be an associated company of the Company under the Takeovers Code, for a term of 3 years from 1 January 2006 to 31 December 2008 subject to termination by either party giving not less than 3 months' written notice to the other party. The aggregate fixed remuneration payable per annum, excluding arrangements for pension payments, is HK\$6,000,000. Under the terms of the service contract, Mr. Hui may also be entitled to receive discretionary bonus which is gratuitous in nature and shall be for such amounts as the board of SPHL, in its absolute discretion, may from time to time determine.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months preceding the Announcement Date; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

(d) Other interests

(A) As at the Latest Practicable Date,

- (i) save for (a) 618,571,397 Shares held by the Offeror, representing approximately 74.74% of the issued share capital of the Company (as disclosed in Section 4(b) of this Appendix); (b) 20,420,000 outstanding Options held by Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya, all being Directors and presumed to be acting in concert with the Offeror (as disclosed in Section 4(a)(ii) of this Appendix); and (c) the Convertible Note (as disclosed in Section 4(b) of this Appendix), none of the Offeror and the parties acting in concert with the Offeror owned or controlled any securities, convertible securities, warrants, options or derivatives of the Company;
- (ii) save for the interests of Mr. Hui and Ms. Hui Mei Mei, Carol, both being Directors and the directors of the Offeror, as disclosed in Sections 4(a)(i) and (ii) of this Appendix, no directors of the Offeror owned or controlled any securities, convertible securities, warrants, options or derivatives of the Company;
- (iii) the Company did not own or control any securities, convertible securities, warrants, options or derivatives of the Offeror;
- (iv) save as disclosed in the section headed “Disclosure of Interests” in this Appendix, none of the Directors owned or controlled any securities, convertible securities, warrants, options or derivatives of the Company and the Offeror;
- (v) no subsidiary of the Company, or any pension fund of the Company or of any member of the Group, or any adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (excluding exempt principal traders) owned or controlled any securities, convertible securities, warrants, options or derivatives of the Company;
- (vi) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code, and any other person;
- (vii) no shareholdings in the Company were managed on discretionary basis by fund managers (other than exempt fund managers) connected with the Company; and
- (viii) there was no arrangement of the kind referred to in Note 8 to Rule 22 (including the third paragraph thereof) of the Takeovers Code between the Offeror or any person acting in concert with the Offeror, and any other person.

(B) *Interests in contract or arrangement*

Save for the interests disclosed below, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole:—

- (i) the interests of Mr. Hui and Ms. Hui Mei Mei, Carol in the two loan agreements referred to under paragraphs (a) and (i) in the section headed “Material Contracts” in this Appendix, by virtue of their interests and directorships in the Offeror;
- (ii) the interests of Mr. Hui in the Non-Competition Undertaking (as defined in Section 4(d)(D) headed “Competing business” in this Appendix) by virtue of his interests in SPHL as disclosed in Section 4(a)(iii) of this Appendix; and
- (iii) the interests of Mr. Hui in the Convertible Note, the Supplemental Deed and the promissory note issued by the Company to Dynamic Keen on 24 June 2005 with an outstanding principal amount of HK\$153,870,000 as at the Latest Practicable Date by virtue of his being the director and also the sole shareholder of Dynamic Keen.

(C) *Interests in assets*

As at the Latest Practicable Date, none of the Directors had 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 2006, being the date to which the latest published audited accounts of the Company were made up.

(D) *Competing business*

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year, the following Directors were considered to have interests in the following businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

Mr. Hui currently owns property development interests in the PRC through (1) SPHL (2) a number of private companies either wholly-owned by Mr. Hui or owned jointly with his wife and/or his daughter Ms. Hui Mei Mei, Carol (an executive Director) and his son Mr. Hui Sai Tan, Jason (collectively the “**Private Group**”). Ms. Hui Mei Mei, Carol, being an executive Director, also hold directorships in the Private Group.

In February 2005, the Group intended to pursue a business strategy of property development and investment in international markets outside the PRC, and in this regard, pursuant to a non-competition undertaking entered into between, among others, the Company, Mr. Hui and SPHL on 19 February 2005 and approved by the Shareholders on 15 September 2005 (the “**Non-Competition Undertaking**”), so long as Overseas Investment Group International Limited, the controlling Shareholder, 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 the PRC, 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. All the parties to the Non-Competition Undertaking further agreed that Suifenhe Shimao Development Project shall not constitute property business in the PRC.

5. DEALINGS IN SECURITIES

During the Relevant Period,

- (a) none of the Offeror, parties acting in concert with it and the directors of the Offeror had dealt in for value any securities, convertible securities, warrants, options and derivatives of the Company;
- (b) neither the Company nor any of the Directors had dealt in for value any securities, convertible securities, warrants, options and derivatives of the Offeror or the Company;
- (c) no subsidiary of the Company, nor any pension fund of the Company or of any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code had dealt in for value any securities, convertible securities, warrants, options and derivatives of the Company;
- (d) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code, the Offeror or any parties acting in concert with the Offeror had dealt in for value any securities, convertible securities, warrants, options and derivatives of the Company; and
- (e) no fund managers (other than exempted fund managers) connected with the Company who managed funds on a discretionary basis had dealt in for value any securities, convertible securities, warrants, options and derivatives of the Offeror or the Company.

6. MARKET PRICES

- (a) The highest and lowest closing prices of the Shares quoted on the Stock Exchange during the Relevant Period were HK\$1.01 per Share on 2 May 2007, 7 May 2007, 8 May 2007, 9 May 2007, 10 May 2007, 29 May 2007 and 30 May 2007 respectively and HK\$0.68 per Share on 19 October 2006, 20 October 2006, 31 October 2006 and 5 March 2007 respectively.

- (b) The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding the Announcement Date and ending on the Latest Practicable Date and (ii) the Latest Practicable Date:

	Closing price <i>(HK\$)</i>
31 October 2006	0.68
30 November 2006	0.82
29 December 2006	0.69
31 January 2007	0.71
28 February 2007	0.73
30 March 2007	0.72
30 April 2007	0.99
31 May 2007	1.00
Latest Practicable Date	1.00

- (c) The closing price of the Shares quoted on the Stock Exchange on 4 April 2007 being the last trading day immediately prior to the suspension of trading in the Shares pending the release of the Joint Announcement was HK\$0.70 per Share.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and 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.

8. MATERIAL CONTRACTS

Save as disclosed below, neither the Company nor any of its subsidiaries had, during the period commencing two years prior to the Announcement Date up to and including the Latest Practicable Date, entered into any contracts which are or may be material, other than contracts in the ordinary course of business of the Group:-

- (a) a loan agreement dated 15 April 2006 entered into between the Offeror and the Company pursuant to which the Offeror agreed to make available a credit facility of HK\$232,747,000 to the Company for a term of four years at the interest rate of 2% per annum;

- (b) a subscription agreement dated 15 April 2006 entered into between the Company, Top Ahead International Limited (“**Top Ahead**”, being a wholly-owned subsidiary of the Company), 上海上實(集團)有限公司 (SIIC Shanghai (Holding) Co., Ltd.) (“**Party A**”), 上海實業發展股份有限公司 (Shanghai Industrial Development Co., Ltd.) (“**Party B**”), 上海海外公司 (Shanghai Overseas Enterprises Corporation) (“**Party C**”), 百聯集團有限公司 (Bailian Group Co., Ltd.) (“**Party D**”), 錦江國際(集團)有限公司 (JinJiang International Holdings Co., Ltd.) (“**Party E**”), 上海綠地(集團)有限公司 (Shanghai Greenland (Group) Co., Ltd.) (“**Party F**”), 上海工業歐亞發展中心 (Shanghai Euro-Asian Industrial Development Center) (“**Party G**”, together with Party A, Party B, Party C, Party D, Party E and Party F, are collectively referred to hereinafter as the “**Existing OU Shareholders**”) and 上海建工(集團)總公司 (Shanghai Construction Group) (“**Shanghai Jiangong**”), in relation to the subscription of 150,000,000 and 50,000,000 shares in 上海海外聯合投資股份有限公司 (Shanghai Overseas United Investment Company Limited) (“**OU**” and the “**OU Share(s)**”) by Top Ahead and Shanghai Jiangong respectively at an issue price of RMB1.00 per OU Share (the “**Subscription Agreement**”) (as supplemented by an extension letter dated 13 November 2006 to extend the latest date for the fulfillment or waiver of the conditions precedent of the Subscription Agreement from 15 August 2006 to 29 December 2006) (Please see the Note below);
- (c) a premium agreement dated 15 April 2006 entered into between Top Ahead, the Existing OU Shareholders and Shanghai Jiangong (the “**Premium Agreement**”) pursuant to which Top Ahead and Shanghai Jiangong agreed to pay RMB30,000,000 and RMB10,000,000 respectively as premium to the Existing OU Shareholders in proportion to their respective shareholdings in OU before the subscription contemplated under the Subscription Agreement (Please see the Note below);
- (d) a joint venture agreement dated 15 April 2006 entered into between the Company, Top Ahead, OU, 上海實業(集團)有限公司 (Shanghai Industrial Investment (Holdings) Co. Ltd.) (“**Shanghai Shiye**”) and Burla Group Limited (“**Burla**”) in relation to the formation of Burla (the “**Joint Venture Agreement**”) (as supplemented by an extension letter dated 13 November 2006 to extend the latest date for the fulfillment or waiver of the conditions precedent of the Joint Venture Agreement from 15 August 2006 to 29 December 2006) (Please see the Note below);
- (e) a supplemental promoter agreement dated 15 April 2006 entered into between the Existing OU Shareholders, Top Ahead and Shanghai Jiangong (the “**Supplemental Promoter Agreement**”) 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 (Please see the Note below);
- (f) the supplemental articles of association dated 15 April 2006 entered into between the Existing OU Shareholders, Top Ahead and Shanghai Jiangong (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 (Please see the Note below);
- (g) a deed of undertaking dated 15 April 2006 entered into between the Company, the Existing OU Shareholders, Shanghai Jiangong and OU in relation to the undertakings by the Company for, inter alia, the performance of the obligations by Top Ahead (the “**Deed of Undertaking**”) (as supplemented by an extension letter dated 13 November 2006 to extend the latest date for the fulfillment or waiver of the conditions precedent of the Deed of Undertaking from 15 August 2006 to 29 December 2006) (Please see the Note below);

- (h) a deed dated 15 April 2006 entered into between the Company and Shanghai Shiye (the “**Deed**”) in relation to the undertakings by Shanghai Shiye to, inter alia, buy back Top Ahead’s shareholdings in OU and in Burla (Please see the Note below);
- (i) a loan agreement dated 20 April 2006 entered into between the Offeror and the Company pursuant to which the Offeror 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;
- (j) a property licence agreement dated 12 June 2006 entered into between Shimao (Hong Kong) Investment Limited (“**Shimao (Hong Kong)**”), an indirect wholly-owned subsidiary of the Company, and SPHL pursuant to which Shimao (Hong Kong) agreed to grant a licence to SPHL the right to use the premises at Units 4307-4312, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong in common with Shimao (Hong Kong) for the period from 12 June 2006 to 31 December 2008 for a licence fee of HK\$150,300 per month; and
- (k) the Supplemental Deed.

Note: As disclosed in the Company’s announcement dated 29 December 2006, each of the Subscription Agreement, the Joint Venture Agreement and the Deed of Undertaking as supplemented by the respective extension letters had lapsed and had no further effect as their respective conditions precedent have not been fulfilled or waived by the extended deadline of 29 December 2006. As a result, the Premium Agreement, the Supplemental Promoter Agreement, the Supplemental Articles of Association and the Deed should also have no further effect.

9. QUALIFICATIONS

The following are the qualifications of the experts who have given opinions or advice which are contained or referred to in this document:

Name	Qualification
Partners Capital	a licensed corporation to carry on types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the SFO
Kingsway	a licensed corporation to carry on type 6 regulated activity (advising on corporate finance) under the SFO
Savills	an independent professional valuer

As at the Latest Practicable Date, none of Partners Capital, Kingsway and Savills has any 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 2006, being the date to which the latest published audited accounts of the Company were made up.

10. CONSENTS

Each of Partners Capital, Kingsway and Savills has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its opinion, letter, report, valuation certificate and/or references to its name, in the form and context in which it appears.

11. GENERAL

- (a) As at the Latest Practicable Date, no benefit (other than statutory compensation) would be given to any Director as compensation for loss of office or otherwise in connection with the Proposals.
- (b) As at the Latest Practicable Date, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or was dependent upon the outcome of the Proposals.
- (c) As at the Latest Practicable Date, there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Proposals or otherwise connected with the Proposals.
- (d) As at the Latest Practicable Date, no person who owned or controlled Shares or Options has irrevocably committed to accept or reject the Proposals.
- (e) As at the Latest Practicable Date, save for the two loan agreements referred to under paragraphs (a) and (i) in the section headed “Material Contracts” in this Appendix in which Mr. Hui and Ms. Hui Mei Mei, Carol have interests (as disclosed under paragraph (i) in Section 4(d)(B) headed “Interests in contract or arrangement” of this Appendix), there is no material contract entered into by the Offeror in which any Director has a material personal interest.
- (f) As at the Latest Practicable Date, there is no agreement or arrangement to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposals.
- (g) The registered office of the Offeror is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and the correspondence address of the Offeror is Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. The registered addresses of Overseas Investment Group International Limited and Trident Trust Company (B.V.I.) Limited are P.O. Box 3340, Road Town, Tortola, British Virgin Islands and P.O. Box 659, Road Town, Tortola, British Virgin Islands respectively. The correspondence addresses of Overseas Investment Group International Limited and Trident Trust Company (B.V.I.) Limited are Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands respectively. The correspondence address of each of Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya (all being Directors and parties presumed to be acting in concert with the Offeror) is Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (h) The registered office of Partners Capital, the financial adviser to the Offeror, is at Unit 3906, 39/F, COSCO Tower, 183 Queen’s Road Central Hong Kong.
- (i) The address of Kingsway, the independent financial adviser to the Independent Board Committee, is at 5/F Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (j) The English text of this document and the forms of proxy shall prevail over the Chinese text in the case of inconsistency.

- (k) In accordance with Rule 2.3 of the Takeovers Code, if the Proposals are either not recommended by the Independent Board Committee or not recommended as fair and reasonable by the independent financial adviser to the Independent Board Committee, all expenses incurred by the Company in connection with the Proposals shall be borne by the Offeror if the Scheme is not approved.
- (l) All announcements in relation to the Proposals will be published as paid announcements in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Sit, Fung, Kwong & Shum at 18/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong from 9:00 a.m. to 5:00 p.m. on any weekday (Saturdays, Sundays and public holidays excepted) and on the website of the Company at www.shimaointernational.com and on the website of the SFC at <http://www.sfc.hk> until the Effective Date or the date on which the Scheme lapses or is withdrawn (whichever is earlier):

- (a) the memorandum of association and bye-laws of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the two years ended 31 December 2006;
- (d) the letter from the Independent Board Committee as set out on pages 22 to 23 of this document;
- (e) the letter from Kingsway as set out on pages 24 to 48 of this document;
- (f) the letter, summary of values and valuation certificate from Savills, the text of which is set out in Appendix II to this document;
- (g) the written consents from the experts referred to in the section headed “Consents” in this Appendix;
- (h) the material contracts referred to in the section headed “Material Contracts” in this Appendix.

The following is a copy of the letter sent to Option Holders in connection with the Option Offer, including an example of the appendix to such letter and the form of acceptance relating to the Option Offer.

THIS LETTER IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this letter or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

A scheme document dated the same date as this letter issued jointly by Shimao International Holdings Limited and Perfect Zone International Limited (the “**Scheme Document**”) is enclosed with this letter. Terms used but not defined in this letter (including the Appendix) shall have the same meanings and construction as in the Scheme Document. **This letter (including the Appendix) and the accompanying form of acceptance should be read in conjunction with the Scheme Document.**

The making of the Option Offer to persons located or with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. If you are a citizen or resident or national of or located in a jurisdiction outside Hong Kong, you should inform yourself about and observe any applicable legal requirements. It is your responsibility if you wish to accept the Option Offer to satisfy yourself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consent which may be required or the compliance with other necessary formalities or legal requirements and the payment of any taxes due in respect of such jurisdiction.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this letter, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this letter.

PERFECT ZONE INTERNATIONAL LIMITED

(Incorporated in the British Virgin Islands with limited liability)

4 June 2007

Dear Option Holder,

PROPOSED PRIVATISATION OF SHIMAO INTERNATIONAL HOLDINGS LIMITED BY PERFECT ZONE INTERNATIONAL LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA (AS AMENDED) AT THE CANCELLATION PRICE OF HK\$1.05 PER SCHEME SHARE AND THE OPTION OFFER

INTRODUCTION

On 19 April 2007, the Company and Perfect Zone jointly announced the proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act, and that Perfect Zone will make an Option Offer to all the Option Holders for the cancellation of their Options subject to and conditional upon the Scheme becoming effective.

This letter explains the actions available for you to take in relation to your outstanding Options. You are advised to refer to the Scheme Document when considering the actions available.

Your attention is also drawn to the Share Option Scheme, and in particular paragraph 7.3(f) of the Share Option Scheme.

COURSES OF ACTION AVAILABLE TO OPTION HOLDERS

- (1) Pursuant to the Share Option Scheme, you may exercise on or before the Option Exercise Date all or any of your Options which have become exercisable in accordance with the Share Option Scheme. Any Shares allotted and issued as a result of the exercise of your Options on or prior to the Option Exercise Date will be subject to and eligible to participate in the Scheme.

This means that once you have exercised your Options on or prior to the Option Exercise Date, you will be entitled to receive, in relation to the Options exercised, in accordance with the terms of the Proposal and subject to the Scheme becoming effective :

for each Scheme Share HK\$1.05 in cash

If you elect to exercise your Options, you must send a cheque to the Company for payment of the exercise monies. The cheque (for the total of your Options exercised multiplied by the exercise price of the Options) should be made payable to “Shimao International Holdings Limited”.

Please refer to the Scheme Document for details of the Proposal to privatize the Company and the Scheme.

- (2) To the extent you have no intention to, or fail to exercise your Options, on or prior to the Option Exercise Date, you may accept the Option Offer in accordance with its terms, as set out herein, by allowing such unexercised Options to lapse and electing to accept the Option Offer on the enclosed Option-holder Form of Acceptance, by not later than 4:00 p.m. on Friday, 20 July 2007 (or such later date and time as may be notified to you by Perfect Zone) to receive the Option Cancellation Price of HK\$0.46 per Option.
- (3) You can do nothing, or fail to accept the Option Offer in accordance with the terms set out herein, in which case, if the Scheme becomes effective, your Options will lapse and determine upon the Scheme becoming effective. This means no Option Cancellation Price will be payable to you by Perfect Zone (or its nominee).

Each Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document and the Share Option Scheme.

Partners Capital International Limited, the financial adviser to Perfect Zone in respect of the Proposal and the Option Offer, is satisfied that sufficient financial resources are available to Perfect Zone for the implementation of the Proposal and Option Offer.

IF THE SCHEME DOES NOT BECOME EFFECTIVE

If the Scheme does not become effective, the Proposal and the Option Offer will lapse and :

- (1) to the extent you have any Options not exercised, these will remain unaffected and will be exercisable during their relevant exercise periods pursuant to the terms of the Share Option Scheme; and
- (2) any Shares allotted and issued to you on exercise of your Options will not be cancelled.

TERMS OF THE OPTION OFFER

Perfect Zone is making an offer, which is conditional upon the Scheme becoming effective and binding, to you in accordance with the relevant requirements under the Takeovers Code. Each Option Holder who accepts the Option Offer and lodges the Option-holder Form of Acceptance by the prescribed deadline will be entitled to the Option Cancellation Price as follows :

for each outstanding Option HK\$0.46 in cash

The Option Cancellation Price represents the “see-through” price of the Options, being the amount by which the Share Cancellation Price of HK\$1.05 per Scheme Share exceeds the exercise price of HK\$0.59 of the Options. Those Options in respect of which you accept the Option Offer will be cancelled in consideration of the payment to you of the Option Cancellation Price for such Options.

The period of the Option Offer commences from Monday, 4 June 2007 until 4:00 p.m. on Friday, 20 July 2007 (or such later date and time as may be notified to you by Perfect Zone).

The Option Offer is conditional upon the Scheme becoming effective and binding. The conditions of the Scheme are set out on pages 52 to 54 of the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee to the Proposal Independent Shareholders and the Option Holders set out on pages 22 to 23 of the Scheme Document and the letter from Kingsway to the Independent Board Committee set out on pages 24 to 48 of the Scheme Document which contain the recommendations to the Independent Board Committee in relation to the Proposals.

GENERAL TERMS AND CONDITIONS

- (i) The delivery of the Option-holder Form of Acceptance, duly signed, if Perfect Zone (or its nominee) determines it appropriate, may be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the Option-holder Form of Acceptance and this letter, including the date specified for receipt.
- (ii) By completing and returning the Option-holder Form of Acceptance in respect of a particular Option, you irrevocably elect to authorize Perfect Zone (or its nominee) to send to you, or procure the sending to you of, the cheque representing the cash to which you are entitled at your own risk by way of post to the registered address as stated in the Option-holder Form of Acceptance completed and returned by you.

OUTSTANDING OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE

Information on the Options held by you as at the Latest Practicable Date (as defined in the Scheme Document) is set out in the Appendix to this letter. If there is any exercise of your Options after the Latest Practicable Date you may accept the Option Offer only in respect of such outstanding Options which remain unexercised as at the Option Exercise Date.

LAPSED OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of an Option which lapses, or has already lapsed, under the Share Option Scheme. You cannot exercise an Option or accept the Option Offer in respect of an Option which has lapsed.

INDEPENDENT FINANCIAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

DECLARATION

By returning the Option-holder Form of Acceptance you thereby :

- (i) confirm that each Option in respect of which you make an election is valid and subsisting free from all liens, mortgages and third party interests of any nature whatsoever and you acknowledge that any Option certificate (if any) in respect of such Option shall become void once that Option has been exercised or cancelled pursuant to your decisions shown on the Option-holder Form of Acceptance;
- (ii) confirm that the decisions which you have made on the Option-holder Form of Acceptance cannot be withdrawn or altered;
- (iii) authorize Perfect Zone (or its nominee) and the Company jointly and severally, and any director or officer of any of Perfect Zone or the Company or any agent of such person to do all acts and things and to execute any document as may be necessary or desirable to give effect to or in consequence of the elections and acceptances you have made on the Option-holder Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such elections and acceptances; and
- (iv) confirm you have read, understood and agreed to the Option Offer, the terms and conditions set out in this letter and the Option-holder Form of Acceptance, and that you have received the Scheme Document and this letter.

GENERAL

- (i) All communications, notices, Option-holder Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from Option Holders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of Partners Capital International Limited, Perfect Zone (or its nominee) or the Company accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.
- (ii) The provisions set out in the Option-holder Form of Acceptance form part of the terms of the Option Offer.
- (iii) The Option Offer, all acceptances and electing will be governed by and construed in accordance with the laws of Hong Kong.
- (iv) Due execution of the Option-holder Form of Acceptance in respect of the Option Offer will constitute an authority to Partners Capital International Limited, Perfect Zone (or its nominee), any director of Perfect Zone or their respective agents to complete and execute on behalf of the accepting Option Holder any document and to do any other act that may be necessary or expedient for the purpose of vesting in Perfect Zone, or such persons as Perfect Zone shall direct, all rights of the Option Holders in respect of the Options which are the subject of such acceptance.

ACTION TO BE TAKEN

You should return the duly completed Option-holder Form of Acceptance to the Company Secretary of the Company at Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong **to be received by no later than 4:00 p.m. on Friday, 20 July 2007** (or such later date and time as may be notified to you by Perfect Zone). If you do not complete the Option-holder Form of Acceptance and return it in accordance with the terms set out in this letter or do not exercise your Options in accordance with the terms of the Share Option Scheme, subject to and conditional upon the Scheme becoming effective, your Options will lapse and be worthless.

Before forwarding the Option-holder Form of Acceptance to the Company Secretary of the Company, please ensure that you have signed the Option-holder Form of Acceptance.

As stated above, the Option Offer is conditional upon the Scheme becoming effective and binding. Unless the Scheme becomes effective and binding, and therefore the Option Offer becomes unconditional, the Option Offer will lapse.

No acknowledgement of receipt of any Option-holder Form of Acceptance will be given.

Assuming that the Option Offer becomes unconditional on the Effective Date, currently expected to be 26 July 2007, and that you accept the Option Offer in accordance with the terms set out in this letter, Perfect Zone will procure its nominee to issue and despatch cheques for the Option Cancellation Price in respect of each outstanding Option you hold, and in respect of which you duly accept the Option Offer, within ten days of the Effective Date. On or after the day being six calendar months after the issue and despatch of such cheques, Perfect Zone shall have the right to cancel or countermand payment of any such cheques which have not then been cashed or have been returned uncashed, and shall place all monies represented thereby in a deposit account in the name of Perfect Zone with a licensed bank in Hong Kong selected by Perfect Zone. Perfect Zone shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereof of the sums to persons who satisfy Perfect Zone that they are entitled thereto and that the cheques of which they are payees have not been cashed. No payments made by Perfect Zone shall include any interest accrued on the sums to which the respective persons are entitled as provided above. On the expiry of six years from the Effective Date, Perfect Zone shall be released from any further obligations to make any payments under the Option Offer and Perfect Zone shall thereafter retain the balance (if any) of the sums then standing to the credit of the deposit account referred to above, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deductions required by law and subject to the deduction of any expenses.

Yours faithfully,
for and on behalf of
Perfect Zone International Limited
Hui Wing Mau
Director

APPENDIX

Outstanding Options held as at the Latest Practicable Date

Name of Option Holder :		Mr. ABC
Date of grant of Options :		[•]
Number of outstanding Options unexercised ¹ :	(A)	[•]
Option Cancellation Price per Option :	(B)	HK\$0.46
If you accept the Option Offer in respect of all your Options and the Option Offer becomes unconditional, you will receive ² :	(C = A x B)	HK\$[•]

Notes:

- This represents your number of Options as at the Latest Practicable Date and in respect of which the Option Offer is being made.*
- This represents the cash you will receive if you accept the Option Offer in respect of all your Options (assuming none of which has been exercised since the Latest Practicable Date), in the event that the Option Offer becomes unconditional.*
- Information on outstanding Options held by you as at the Latest Practicable Date has been provided by the Company. In case of any dispute, the records of the Company as to the number of Options shall be final and binding on you.*

FORM OF ACCEPTANCE

To : Shimao International Holdings Limited
 Perfect Zone International Limited
 Partners Capital International Limited

I hereby :

- (i) accept the Option Offer made by Perfect Zone in respect of **ALL** my holdings of Options which are unexercised as at the date of this acceptance, on the terms and subject to the conditions set out in the letter from Perfect Zone dated 4 June 2007 in relation to the Option Offer¹.

OR

- (ii) accept the Option Offer made by Perfect Zone in respect of those of my holding of Options as set out below, on the terms and subject to the conditions set out in the letter from Perfect Zone dated 4 June 2007 in relation to the Option Offer¹ :

Number of Options in respect of which the Option Offer is accepted² : _____

AND

subject to the Option Offer becoming unconditional, direct Shimao International Holdings Limited to cancel those of my holding of Options in respect of which I accept the Option Offer.

Details of Option Holder	Surname(s)	Other Names(s)
	Registered address	
		Telephone Number

 Signature of Option Holder

Date :

Notes:

- Please tick as appropriate.*
- Please fill in the number of Options in respect of which you wish to accept the Option Offer.*
- This Option-holder Form of Acceptance is subject to the terms and conditions of the Option Offer as set out in the letter from Perfect Zone dated 4 June 2007 in relation to the Option Offer.*
- This Option-holder Form of Acceptance should be returned to the Company Secretary of the Company at Units 4307-12, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong to be received by no later than 4:00 p.m. on Friday 20 July 2007 (or such later date and time as may be notified to you by Perfect Zone).*
- Terms used but not defined in this Option-holder Form of Acceptance shall have the meanings given to them in the letter from Perfect Zone International Limited dated 4 June 2007 in relation to the Option Offer and the Scheme Document.*

SCHEME OF ARRANGEMENT

IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION
(Commercial Court)

2007: No. 133

IN THE MATTER OF SHIMAO INTERNATIONAL HOLDINGS LIMITED
-and-
IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981

SCHEME OF ARRANGEMENT
between
SHIMAO INTERNATIONAL HOLDINGS LIMITED
and
THE HOLDERS OF THE SCHEME SHARES (as defined herein)

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall bear the meanings respectively set opposite them:

“BVI”	the British Virgin Islands;
“Companies Act”	The Companies Act 1981 (as amended) of Bermuda;
“Company”	Shimao International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange;
“Court”	the Supreme Court of Bermuda;
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Court at which the Scheme (with or without modification) will be voted upon, or any adjournment thereof;
“Directors”	the director(s) of the Company;
“Effective Date”	the date on which this Scheme becomes effective in accordance with paragraph 6 of this Scheme;
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China;

SCHEME OF ARRANGEMENT

“Latest Practicable Date”	1 June 2007, being the latest practicable date prior to the printing of the document sent to, inter alia, the Shareholders dated 4 June 2007 in which this Scheme is contained;
“New Shares”	the new Share(s) to be created pursuant to the Scheme;
“Offeror”	Perfect Zone International Limited, a company incorporated in the BVI with limited liability;
“Record Time”	5:00 p.m. (Hong Kong time) on Monday, 23 July 2007 or such other time as shall have been announced to the Shareholders, being the record time for determining entitlements of the Scheme Shareholders under the Scheme;
“Register”	the branch and principal registers of members of the Company;
“Scheme”	this scheme of arrangement under Section 99 of the Companies Act involving the cancellation of all the Scheme Shares in its present form or with or subject to any modification or addition thereto or condition which the Court may approve or impose;
“Scheme Shareholders”	Shareholders other than the Offeror;
“Scheme Share(s)”	Share(s) held by the Scheme Shareholders;
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong,

- (B) The Company was incorporated on 16 April, 1998 in Bermuda under the Companies Act with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares and as at the Latest Practicable Date had an authorised share capital of HK\$1,000,000,000.00 divided into 10,000,000,000 Shares of which 827,639,886 Shares had been issued and were fully paid or credited as fully paid.
- (C) On the Latest Practicable date, the Offeror held 618,571,397 Shares.
- (D) In consideration of and exchange for the cancellation and extinguishment of each of the Scheme Shares on the Effective Date, all Scheme Shareholders as appearing in the Register at the Record Time shall be entitled to receive HK\$1.050 in cash for every Scheme Share held.
- (E) The Offeror has agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme.
- (F) The primary purpose of this Scheme is that on the Effective Date, all the Scheme Shares should be cancelled and extinguished, the New Shares be created and issued to the Offeror, and that the Company will become wholly-owned by the Offeror.

SCHEME OF ARRANGEMENT

THE SCHEME

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES AND THE CREATION, ALLOTMENT AND ISSUE OF THE NEW SHARES

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon the reduction of capital referred to in paragraph (a) above taking effect, the entire issued share capital of the Company shall be increased to its former amount by the creation of such number of New Shares as is equal to the number of the Scheme Shares; and
 - (c) the Company shall apply the amount of the credit arising in its books of account as a result of the reduction of its share capital referred to in paragraph (a) above in paying up in full at par all the New Shares as created under paragraph (b) above which shall be allotted and issued to the Offeror or its nominee(s), credited as fully paid.

SCHEME OF ARRANGEMENT

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to paragraph 1(a) of this Scheme, the Offeror will pay or cause to be paid to each Scheme Shareholder as appearing in the Register at the Record Time, HK\$1.050 for every Scheme Share held.

PART III

GENERAL

3. (a) Not later than ten days after the Effective Date, the Offeror shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register at the Record Time) cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.
- (b) Unless indicated otherwise in writing to the branch share registrar of the Company in Hong Kong, (being Tengis Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong) all such cheques shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to such Scheme Shareholders as follows:
- (i) in the case of each sole Scheme Shareholder, the registered address of such Scheme Shareholder as appearing in the Register as at the Record Time; or
- (ii) in the case of joint Scheme Shareholders, the registered address as appearing in the Register as at the Record Time of the joint Scheme Shareholder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Company and the Offeror for the moneys expressed to be represented thereby.
- (d) All cheques shall be posted at the risk of the addressee and other persons entitled thereto and the Company, the Offeror and any other persons involved in the Scheme shall not be liable for any loss or delay in transmission.
- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date make payments thereof of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto, provided that the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. No payments made by the Offeror hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to paragraph 2 of this Scheme. The Offeror shall exercise its absolute discretion

SCHEME OF ARRANGEMENT

in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiry of six years from the Effective Date, the Offeror (or any successor company thereto) shall be released from any further obligation to make any payments under this Scheme and the Offeror shall thereafter retain the balance (if any) of the sums standing to the credit of the deposit account referred to in paragraph 3(e) of this Scheme including accrued interest (if any) subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law and subject also to the deduction of any expenses.
 - (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.
4. As from the Effective Date, all instruments of transfer and certificates validly subsisting at the Record Time in respect of a transfer or holding of any Scheme Shares shall, as from the Effective Date, cease to have effect as documents or evidence of transfer or title and every holder thereof shall be bound, on the request of the Company, to deliver up to the Company the certificate(s) in respect of its, his or her entire holding of Scheme Shares.
 5. All mandates or other instructions to the Company in force at 9.00 a.m. in Hong Kong on the Effective Date in relation to the Scheme Shares (including elections for the payment of dividends by way of scrip) shall cease to be valid as effective mandates or instructions.
 6. This Scheme shall become effective as soon as a copy of the Order of the Court sanctioning this Scheme under section 99 of the Companies Act shall have been delivered to the Registrar of Companies in Bermuda for registration.
 7. The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the Court may see fit to approve or impose.
 8. Unless this Scheme shall have become effective on or before 30 September, 2007, (or such later date, if any, as the Offeror and the Company may agree or, to the extent applicable, as the Court may allow), this Scheme shall lapse.
 9. The expenses and costs incurred by the Company in connection with the Scheme will be borne by the Offeror if the Scheme does not become effective.

Dated 4 June, 2007

NOTICE OF COURT MEETING



Shimao International Holdings Limited

世茂國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 649)

IN THE SUPREME COURT OF BERMUDA, CIVIL JURISDICTION

2007: No. 133

**IN THE MATTER OF
SHIMAO INTERNATIONAL HOLDINGS LIMITED
and
IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an Order dated 31 May 2007 (the “**Order**”) made in the above matter, the Court has directed Shimao International Holdings Limited (the “**Company**”) to convene a meeting (the “**Court Meeting**”) of the Scheme Shareholders (as defined in the Scheme mentioned below), for the purpose of considering and, if thought fit, approving (with or without modification(s)) a scheme of arrangement (the “**Scheme**”) proposed to be made between the Company and the Scheme Shareholders and that such Court Meeting will be held at Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 27 June 2007 at 10:00 a.m. (Hong Kong time) at which place and time all the Scheme Shareholders are requested to attend.

A copy of the Scheme and a copy of the explanatory statement required to be furnished pursuant to section 100 of the Companies Act of Bermuda are incorporated in the printed document dated 4 June 2007 despatched to the Scheme Shareholders (the “**Document**”) of which this Notice forms part. A copy of the Document can also be obtained by Scheme Shareholders from the Company’s branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong during normal working hours on any day (other than a Saturday, Sunday or public holiday in Hong Kong or Bermuda (as the case may be)).

The Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A **pink** Form of Proxy for use at the Court Meeting is enclosed with the Document.

NOTICE OF COURT MEETING

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint shareholding.

It is requested that forms appointing proxies be lodged with Tengis Limited, the branch share registrar and transfer office of the Company in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 48 hours before the time appointed for the Court Meeting, but if the forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting. Completion and return of the Form of Proxy shall not preclude a Scheme Shareholder from attending and voting in person at the Court Meeting and, in such event, the Form of Proxy shall be deemed to have been revoked.

By the Order, the Court has appointed Mr. Hui Wing Mau, a director of the Company, or failing him, Ms. Hui Mei Mei, Carol, also a director of the Company, or failing her, any other person who is a director of the Company as at the date of the Order to act as the chairman of the Court Meeting and the Court has also directed the chairman of the Court Meeting to report the result thereof to the Court.

The Scheme will be subject to the subsequent approval of the Court as set out in the explanatory statement contained in the Document.

Dated this 4th day of June 2007

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Attorneys for the Company

NOTICE OF SPECIAL GENERAL MEETING



Shimao International Holdings Limited

世茂國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 649)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a Special General Meeting (the “**Meeting**”) of Shimao International Holdings Limited (the “**Company**”) will be held at Units 4307–12, 43/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 27 June 2007 at 10:30 a.m. (Hong Kong time) (or so soon thereafter as the meeting of certain holders of the ordinary shares of HK\$0.10 each in the capital of the Company convened pursuant to the direction of the Supreme Court of Bermuda for the same place and day shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following special and ordinary resolutions, with or without modifications :

SPECIAL RESOLUTION

1. “**THAT** :

- (a) the Scheme of Arrangement dated 4 June 2007 (the “**Scheme**”) between the Company and the holders of the Scheme Shares (as defined in the Scheme) in the form of the print thereof which has been produced to the Meeting marked “A” and signed by the Chairman of the Meeting for the purpose of identification, subject to any modifications, additions or conditions as may be approved or imposed by the Supreme Court of Bermuda, be and is hereby approved;
- (b) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme) :
 - (i) the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) subject to and forthwith upon the said reduction of capital taking effect, the issued share capital of the Company be increased to its former amount by the creation of such number of new ordinary shares of HK\$0.10 each in the capital of the Company as is equal to the number of Scheme Shares cancelled; and
 - (iii) the Company shall apply the amount of credit arising in its books of account as a result of the said capital reduction in paying up in full at par all the new ordinary shares so created as aforesaid, which shall be allotted and issued, credited as fully paid, to Perfect Zone International Limited and/or such entities as it may direct; and

NOTICE OF SPECIAL GENERAL MEETING

- (c) the directors of the Company be and are hereby authorized to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the Supreme Court of Bermuda may see fit to impose.”

ORDINARY RESOLUTION

2. **“THAT :**

- (a) the amendments (the “**Amendments**”) to the Convertible Note due 2007 in the principal amount of HK\$250,000,000 issued by the Company to Dynamic Keen Developments Limited (“**Dynamic Keen**”) on 24 June 2005 (the “**Convertible Note**”) as contemplated under the supplemental deed supplemental to the Convertible Note entered into between the Company and Dynamic Keen on 19 April 2007 (a copy of which supplemental deed is produced to the Meeting marked “B” and signed by the Chairman of the Meeting for the purpose of identification) be and are hereby approved, confirmed and ratified; and
- (b) the board of directors of the Company be and are hereby authorized for and on behalf of the Company to execute all such other documents, instruments and supplemental agreements or deeds whether under hand or seal of the Company and to do all such things and take all such action as they may consider necessary or desirable for the purpose of giving effect to the Amendments.”

By Order of the Board
Shimao International Holdings Limited
Hui Mei Mei, Carol
Deputy Chairman

Hong Kong, 4 June 2007

Notes :

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or, if he holds two or more shares, more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. Where there are joint holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto provided that if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present in person or by proxy whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. A **white** form of proxy for use at the Meeting is enclosed herewith.
4. In order to be valid, the white form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for holding the Meeting or any

NOTICE OF SPECIAL GENERAL MEETING

adjournment thereof. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. As ordinary resolution no.2 is subject to independent shareholders' approval, the votes of shareholders to be taken at the above Meeting to approve such ordinary resolution shall be taken on a poll.
6. The Register of Members of the Company will be closed from Friday, 22 June 2007 to Wednesday, 27 June 2007, both days inclusive, during which period no transfer of shares of the Company can be effected. In order to determine who are entitled to attend and vote at the Meeting, all properly completed and signed transfer forms accompanied with the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Thursday, 21 June 2007.

Chairman and Non-Executive Director

Hui Wing Mau

Executive Directors

Hui Mei Mei, Carol

Tung Chi Shing

Chan Loo Shya

Independent Non-Executive Directors

Lee Chack Fan

Liu Hing Hung

Zhu Wenhui