



Interview with the Chairman



○ What are Shimao China's competitive advantages in the PRC property development business?

● My experience in the property business of the past 15 years or so, together with the well-established "Shimao" brandname, which is synonymous with premium property, will forge Shimao China's property business development ahead. We have identified premier properties both in the PRC and Hong Kong as our target markets. With our "customer-oriented" service mission, we will offer an excellent living environment, which will help to establish Shimao China as a prominent and well-established listed property development company in Hong Kong with high growth potential.

○ Apart from being a major shareholder and the Chairman of Shimao China, you are also the shareholder of Shimao Group and the Shanghai "A" share listed company Shanghai Shimao Co. Ltd. Can you explain the relationship between these three companies?

● I started the business of property development, tourism, hotels, department stores, construction, import/export trading and etc. in the late '80s. In 2000, I acquired a Shanghai "A" share listed company, which was subsequently renamed Shanghai Shimao Co. Ltd. In October 2001, I acquired a Hong Kong main board listed company which is now known as Shimao China Holdings Limited. These two companies, which are listed in Shanghai and Hong Kong respectively, greatly enhance Shimao's image and popularity in the PRC and overseas. Both companies have the opportunities to participate in Shimao Group's large scale premier property projects, greatly enhancing synergies among the three companies.

○ Shimao China once again recorded a loss. As the new leader of the Company, what strategies do you have to cope with this situation?

● I will restructure the businesses while focusing on property development as our core business. We will centralize our resources to invest in high-return premier property developments in Hong Kong and the PRC, etc. and gradually phase out side businesses which are unable to contribute returns to the Company.

○ Shimao China raised funds with two rights issues within just three months. Why?

● Shimao China has a number of excellent property projects, which are under business negotiation and ripe for development. Therefore, extra capital is needed to support these profit-generating projects. There are several investors who are interested in Shimao China and are keen to see the issue of new shares by way of placing. However, we raised funds by the rights issues as we would like to offer our shareholders an alternative whether they would like to show further support and participate in Shimao China's leading projects, and to share the favourable results of the Company. Like our shareholders, under the two rights issues, I also subscribed for rights shares according to my allocated proportion, and have fully undertaken these rights shares. The two rights issues have been completed and I am very pleased with the strong support received from our shareholders.

○ How does the Company see the prospects for the PRC property market?

● The Company is highly positive with regard to the outlook of the PRC property market. First, with China's entry into WTO, Shanghai's property market will generate comparatively higher profits. The premier residential property market is especially seen as having a great deal of potential. Second, the Government has formulated many preferential home purchasing policies which will boost the future property market. Third, Shanghai's current property market is well established and will become more marketable. The property market will be more sophisticated in the near future. Fourth, as an international metropolis, Shanghai's position in the international market is growing in significance. As current property prices in Shanghai are relatively low as compared with other international cities, there is plenty of room both for property price increases and for high development potential.

○ Have the PRC's regional governments formulated any policies to promote the property industry?

● The Shanghai Government has introduced the tax rebates policy for home buyers and series of preferential policies, encouraging local people, businessmen from other provinces and overseas to invest in Shanghai properties. At the same time, the Government has reduced or exempted various government fees relating





to the property sector. For example, the stamp duty has been reduced from 3% to 0.75%, title-transfer fee has decreased from 0.5% to RMB250. All these reductions greatly lower the expenses connected with property purchases and will boost the property market.

○ Shimao China is working to develop the PRC premier property market. China's accession to WTO has attracted many competitors both inside and outside China. Do you have a strategy to cope with the increased number of competitors?

● China's accession to WTO will have a strengthening effect on Shanghai's property market. Shanghai's property market is expected to move towards greater standardization and marketability.

Currently, some overseas developers have started moving into the Shanghai property market, resulting in more and more vigorous competition. According to statistics, overall residential property supplies are dominated by low-to-medium and medium-to-high level residential properties while the supply of the high-end and super luxury developments are limited. Most local and overseas developers are competing fiercely in the low-to-medium property market. The supply of super luxury properties in Shanghai is still very rare.

We have already spotted this market niche. In fact, my own business of the Shimao Group has established a successful model. The Shimao Group has been engaged in the development of super luxury residential properties in the PRC for many years, successfully establishing the superior "Shimao" brand. The Shimao Group has accumulated a great deal of experience in local property development, including the PRC's property development regulation, Government development blue prints, property design, construction team monitoring, sales strategies and property management. These factors will benefit Shimao China and enable it to stand out from its competitors.

○ A series of extensive marketing campaigns for "Shanghai Shimao Riviera Garden" developed by Shimao Group, your own enterprise, have been launched. You have spent large sums of money inviting Hong Kong super star, Tony Leung, to star in the TV commercial. Even though the average price for Phase II of the project reached USD2,000 per sq.m., the flats sold out quickly and resulted in overnight queuing by buyers. Obviously, your sales strategies are both successful and innovative in the PRC property sector. Can you share your strategies for success with us?

● Actually, I have developed my business on a "step-by-step" basis ensuring concrete progress every step of the way. In the future, we will apply this operating philosophy to Shimao China. With revolving funds from property pre-sales, we hope to reduce bank borrowings. We will also seek third party partners, who are financially able, to jointly explore the development of these super luxury residential property projects. As Shanghai is a gathering point for capital and cash both locally and from nearby provinces and overseas, there is keen demand for these super luxury residential properties.

"Shanghai Shimao Riviera Garden" consists of several high-rise buildings with the best construction materials and a luxury lifestyle. It is sited along the Huangpu River, enjoying panoramic views of the river. It also possesses an extensive green area of 160,000 sq.m. and 4 super luxury clubhouses with a total area of more than 10,000 sq.m. Despite these rare and unique development, we are only

charging USD2,000 per sq.m., which is quite a very conservative price. Thus, the properties have gained a great deal of popularity with flats selling out almost immediately, enhancing our cash flow for the development of the next development phase. Therefore, it is less likely for us to rely on bank borrowings which incur high interest costs and lower our profit margin. Since our development is a large scale premier residential project, with over 2,500 flats in total, we are able to launch our promotional campaign with super star Mr. Tony Leung as its role model. Overall, the advertising cost per flat is negligible.