

Report of the Directors

The directors of the Company (the "Board" or the "Directors") present their annual report and the audited accounts for the year ended 31st December 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 14 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 26.

DIVIDEND

A special dividend of HK6 cents per ordinary share, totaling HK\$49,658,000 was paid out of the contributed surplus on 15th April 2004.

The Directors have resolved to recommend the payment of a final dividend for the year ended 31st December 2004 of HK5 cents per ordinary share to be paid on 10th June 2005 to the shareholders of the Company whose names appear on the register of members of the Company on 23rd May 2005.

RESERVES

Movement in the reserves of the Group and of the Company during the year are set out note 20 to the accounts.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$115,100.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 11 to the accounts.

DIRECTORS

The Directors during the year and up to the date of this report are:

Chairman and non-executive Director

Mr. Hui Wing Mau

Executive Directors

Mr. Chung Shui Ming, Timpson	(appointed on 3rd May 2004)
Miss Hui Mei Mei, Carol	
Mr. Hui Sai Tan, Jason	
Mr. Tung Chi Shing	(appointed on 19th February 2005)
Mr. Chan Loo Shya	(appointed on 19th February 2005)
Ms. Lee Yuk Ying	(resigned on 1st June 2004)
Mr. Ip Wai Shing	(appointed on 5th February 2004 and resigned on 19th February 2005)
Mr. Tang Ping Fai	(appointed on 5th February 2004 and resigned on 19th February 2005)
Ms. Yao Li	(appointed on 5th February 2004 and resigned on 19th February 2005)

Independent non-executive Directors

Professor Lee Chack Fan	(appointed on 1st June 2004)
Mr. Liu Hing Hung	
Dr. Zhu Wenhui	(appointed on 15th December 2004)
Mr. Lu Hong Bing	(resigned on 19th February 2005)
Mr. Yu Hon To, David	(appointed on 1st June 2004 and resigned on 19th February 2005)

In accordance with clause 86(2) of the Company's Bye-laws, Mr. Chung Shui Ming, Timpson, Mr. Tung Chi Shing, Mr. Chan Loo Shya, Professor Lee Chack Fan and Dr. Zhu Wenhui shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with clause 87 of the Company's Bye-laws, Mr. Hui Sai Tan, Jason shall retire by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting. The remaining Directors shall remain in office.

Pursuant to the service contracts of Mr. Hui Wing Mau, Miss Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason, the term of their directorship as Director is three years commencing from 1st January 2004 and may be terminated in accordance with the terms thereof.

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Pursuant to the service contract of Mr. Chung Shui Ming, Timpson, the term of his directorship as executive Director is three years commencing from 3rd May 2004 and may be terminated in accordance with the terms thereof.

The service contracts of Mr. Tung Chi Shing and Mr. Chan Loo Shya, do not provide for a fixed term of tenure and may be terminated in accordance with the terms thereof. The term of office for each of the independent non-executive Directors is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

None of the Directors, including Directors being proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its ultimate holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Subsequent to the balance sheet date, the Company entered into (1) a non competition undertaking with Mr. Hui Wing Mau, the Chairman and a non-executive Director, and other parties on 19th February 2005 to delineate their respective businesses and (2) a sale and purchase agreement with Dynamic Keen Developments Limited, a company wholly owned by Mr. Hui, as vendor and Mr. Hui as guarantor on 19th February 2005 in relation to the acquisition by the Company of the interests in Value Ahead Investments Limited. Details of these two transactions are set out in the section headed "CONNECTED TRANSACTIONS AND POST BALANCE SHEET EVENTS" of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND THE ASSOCIATED CORPORATIONS

At 31st December 2004, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests in the Company

Name of director	Personal interests	Number of ordinary shares		Total
		Family interests	Other interests	
Mr. Hui Wing Mau	–	–	618,571,397 (Note 1)	618,571,397
Miss Hui Mei Mei, Carol	–	–	618,571,397 (Note 1)	618,571,397
Mr. Hui Sai Tan, Jason	–	–	618,571,397 (Note 1)	618,571,397
Mr. Ip Wai Shing (Note 2)	304,000	–	–	304,000
Mr. Tang Ping Fai (Note 2)	30,000	–	–	30,000

Notes:

- (1) The interest disclosed represents the interest in the Company which is held by Perfect Zone International Limited, a company which is directly wholly-owned by Overseas Investment Group International Limited as trustee of a unit trust, all the units of which are held by Trident Corporate Services (B.V.I.) Limited (formerly known as Ansbacher (BVI) Limited) as trustee of The WM Hui Family Trust, a discretionary trust set up by Mr. Hui Wing Mau, the Chairman and a non-executive Director, for the benefit of his wife and children. Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason are the children of Mr. Hui Wing Mau and accordingly, Mr. Hui Wing Mau, Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason are deemed to be interested in the interest by virtue of section 345(4) of the SFO.
- (2) Both Mr. Ip Wai Shing and Mr. Tang Ping Fai resigned as Directors on 19th February 2005.

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Save as disclosed above, 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) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SHARE OPTIONS

Under the terms of the existing share option scheme (the “Existing Scheme”) adopted by the Company on 24th June 1998 for the primary purpose of providing incentives to directors and eligible employees of the Group, the Directors may, at their discretion, grant options to employees of the Group, including executive Directors to subscribe for shares. The options granted will entitle the holders to subscribe for shares during such periods as may be determined by the Directors at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on the Stock Exchange on the five trading days immediately proceeding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the Existing Scheme may not exceed 10% of the share capital of the Company in issue from time to time, and the maximum number of shares in respect of which options may be granted to any employee may not exceed 25% of the maximum number of shares in respect of which options may be granted under the Existing Scheme. Any shares allotted on the exercise of options will rank *pari passu* in all respects with the other shares in issue at the date of exercise of the relevant options.

After adoption of the Existing Scheme, there had been major amendments to Chapter 17 of the Listing Rules which governs the operation of share option scheme which came into effect on 1st September 2001. As a result of these amendments, the Existing Scheme currently does not comply with the provisions of Chapter 17 of the Listing Rules. The Company therefore has announced on 23rd February 2005 that the Company proposes to terminate the Existing Scheme and to adopt a new share option scheme for compliance with the amended rules at a special general meeting to be convened.

As at 31st December 2004, there were no outstanding share options and no share options were granted or exercised during the year.

DIRECTORS’ RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its fellow subsidiaries or its ultimate holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st December 2004, the following persons (other than a Director or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were:

Name	Number of shares held	Percentage of shareholding
Perfect Zone International Limited	618,571,397 (<i>Note</i>)	74.74%
Overseas Investment Group International Limited	618,571,397 (<i>Note</i>)	74.74%
Trident Corporate Services (B.V.I.) Limited	618,571,397 (<i>Note</i>)	74.74%

Note: The interest disclosed represents the interest in the Company which is held by Perfect Zone International Limited, a company which is directly wholly-owned by Overseas Investment Group International Limited as trustee of a unit trust, all the units of which are held by Trident Corporate Services (B.V.I.) Limited (formerly known as Ansbacher (BVI) Limited) as trustee of The WM Hui Family Trust, a discretionary trust set up by Mr. Hui Wing Mau, the Chairman and a non-executive Director, for the benefit of his wife and children.

Save as disclosed above, no other person (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 as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total turnover and 80.8% of the Group's total purchase respectively during the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the major suppliers noted above.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS AND POST BALANCE SHEET EVENTS

- (1) The Company announced on 23rd February 2005 that the Group intends to pursue a business strategy of property development and investment in international markets (including Hong Kong) outside the Mainland China. In this regard, the Company entered into a non-competition undertaking (the "Undertaking") dated 19th February 2005 with Mr. Hui Wing Mau, the Chairman and a non-executive Director, and other parties including Shimao Property Holdings Limited ("SPHL"), a company currently wholly-owned by Mr. Hui, whereby the parties agreed to delineate their respective businesses on the terms and conditions set out therein. The reasons for and the benefits of the delineation and other details of the Undertaking are contained in the circular of the Company dated 26th February 2005 and a special general meeting was proposed to be held on 14th March 2005 to consider and if appropriate to approve the Undertaking.

The Company further announced on 10th March 2005 that the Board received a letter dated 4th March 2005 from the Listing Committee in relation to the Undertaking as well as the business delineation with SPHL following a hearing of the Listing Committee held on 3rd March 2005. The Company wrote on 9th March 2005 to request the Listing Committee to provide written reasons for the decision in the letter from the Listing Committee dated 4th March 2005. Under such circumstance, the special general meeting originally convened to be held on 14th March 2005 to consider and if appropriate, approve the Undertaking was adjourned until further notice. The Company further announced on 7th April 2005 that the Board received a letter dated 31st March 2005 from the Listing Committee which was in response to the Company's letter dated 9th March 2005 requesting the Listing Committee to provide written reasons for the decision. Having considered the written reasons for the decision, the Company submitted a written request for review of the decision to the Listing (Review) Committee on 7th April 2005. Further details are set out in the Company's announcements dated 10th March and 7th April 2005.

- (2) The Company also announced on 23rd February 2005 (the "Suifenhe Announcement") that it entered into a sale and purchase agreement with Dynamic Keen Developments Limited, a company wholly-owned by Mr. Hui, as vendor and Mr. Hui as guarantor on 19th February 2005 whereby the Company agreed to acquire the entire issued share capital of and the outstanding loan due by Value Ahead Investments Limited ("Value Ahead") for an aggregate consideration of HK\$496,220,000 (the "Acquisition"). The principal asset of Value Ahead is the ownership of the entire beneficial interests in "綏芬河世茂開發建設有限公司" (Suifenhe Shimao Development & Construction Company Limited) ("Suifenhe Shimao") which in turn (1) owns two parcels of land located in the Municipality of Suifenhe in the Heilongjiang Province of the PRC with a total site area of 722,824.5 sq.m. (the "Land") which will be developed as part of the Pogradichny-Suifenhe Intertrading Economic Zone ("Intertrading Zone"); (2) had entered into a cooperative agreement with 《濱海》信息分析封閉性股份公司 (Coastal Information Analysis Closed-end Stock Company Limited) (the "Russian Company"), a company established in the Russian Federation, dated 16th June 2004 which sets out certain principles, scopes and areas of cooperation for the development and investment by Suifenhe Shimao and the Russian Company within the Intertrading Zone; and (3) has been developing an international commercial and exhibition centre known as "世茂國際商展中心" (the "Commercial Centre") and a five-star hotel within the Land and both the Commercial Centre and the hotel are currently under construction (collectively the "Suifenhe Shimao Development Project"). Further details of the Suifenhe Shimao Development Project are set out in the Suifenhe Announcement. The consideration of HK\$496,220,000 will be satisfied (i) as to HK\$250,000,000 by way of issuance of a convertible note convertible into 185,185,185 shares of the Company at a conversion price of HK\$1.35 per share subject to a right of redemption of the Company and (ii) as to the balance of HK\$246,220,000, by way of issuance of a promissory note in the principal amount of HK\$246,220,000, which is payable on the fourth anniversary from the date of its issue and bears interest of 2% per annum.

The Acquisition constitutes a major transaction for the Company under the Listing Rules. As the vendor is wholly owned by Mr. Hui, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and is therefore subject to the approval of the independent shareholders of the Company at a special general meeting to be convened for this purpose. The Company is also required to despatch to shareholders of the Company a circular setting out certain details of the Acquisition within 21 days after the publication of the Suifenhe Announcement. As the Company requires additional time to provide further information as requested by the Stock Exchange for inclusion in the circular, the Company has applied to the Stock Exchange for waivers from the strict compliance with the Listing Rules by extending the deadline for the despatch of the circular to 4th May 2005. Subject to the clearance by the Stock Exchange of the circular and the despatch thereof, a special general meeting will be convened for the independent shareholders to consider and if appropriate, to approve the Acquisition.

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- (3) The Company also announced on 23rd February 2005 the proposal to change the Company's name to Shimao International Holdings Limited and the Board also proposed to adopt 世茂國際控股有限公司 as the Chinese name of the Company to reflect the strategic business strategy of the Group going forward as mentioned in (1) above. The proposal will be put forward to the shareholders of the Company for approval at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year and up to the date of this report, 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 Wing Mau, the Chairman and a non-executive Director, currently owns property development interests in the PRC through (1) a group of companies to be owned by SPHL (collectively the "SPHL Group") (2) a number of private companies either wholly-owned by Mr. Hui or owned jointly with his wife and/or Miss Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason (both of whom are Directors) (collectively the "Private Group"). Mr. Chung Shui Ming, Timpson, Miss Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason, being executive Directors, also hold directorships and/or senior management positions in the SPHL Group while Miss Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason also hold directorships and/or senior management positions in the Private Group.

The following table sets out details of the location and planned use of, as well as SPHL's interest in, its eleven property development projects:

Project	Location	Planned Use ⁽¹⁾	Total Estimated Planned GFA (m ²)	SPHL's Interest in the Project	Estimated Completion Year of the Whole Project
Shimao Riviera Garden	Shanghai	Residential, Retail	883,217	100% ⁽²⁾	2007
Shimao International Plaza	Shanghai	Hotel, Retail	170,935	100%	2006
Shimao She Shan	Shanghai	Residential, Hotel	135,416	100%	2006
Shimao North Bund	Shanghai	Residential, Hotel	100,472	100%	2006
Shimao Olympic Garden	Beijing	Residential, Retail	260,072	80%	2007
Shimao Nanjing	Nanjing	Residential, Retail, Hotel	1,460,389	50%	2010
Shimao Fuzhou	Fuzhou	Residential, Retail	287,717	50%	2006
Shimao Harbin	Harbin	Residential, Retail	1,703,537	100%	2007
Shimao Kunshan	Kunshan	Residential, Retail	1,270,600	50.5% ⁽²⁾	2010
Shimao Changshu	Changshu	Residential, Retail, Office, Hotel	1,970,000	100%	2008
Shimao Wuhan	Wuhan	Residential, Retail, Office, Hotel	1,907,000	100%	2010

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Notes:

- (1) The planned use of the above projects includes land for which the SPHL Group has not yet obtained land use rights certificates.
- (2) The interests in Shimao Riviera Garden and Shimao Kunshan assume completion of the reorganisation to be undertaken by the SPHL Group.

The following table sets out details of the location and planned use of property development projects in the PRC held by the Private Group:

Project	Location	Planned Use ⁽¹⁾	Approximate Total Site Area/ Completed GFA (m ²) ⁽¹⁾	Status
Zhenshi Development Zone	Fujian Province	Composite	93,333 ⁽¹⁾	Substantially completed and sold
Wuyi Tourist Resort	Fujian Province	Tourist and resort	333,331 ⁽¹⁾	Substantially completed and sold
Gold Coast Resort	Fujian Province	Tourist and resort	1,313,045 ⁽¹⁾	Substantially completed
Asia Games Garden	Beijing	Residential	66,369	Substantially completed and sold
Zizhu Garden	Beijing	Residential	152,261	Substantially completed and sold
Royal Garden	Beijing	Residential	94,149	Substantially completed and sold
Epoch Centre	Beijing	Residential, retail	130,618	Substantially completed and sold
Zhenshi Hotel	Fujian Province	Hotel	21,114	Completed
Wuyishan Fishing Lake Hotel	Fujian Province	Hotel	3,735	Completed

Notes:

- (1) The measurements for Zhenshi Development Zone, Wuyi Tourist Resort and Gold Coast Resort relate to site area. The measurements for Asia Games Garden, Zizhu Garden, Royal Garden, Epoch Centre, Zhenshi Hotel and Wuyishan Fishing Lake Hotel relate to total completed GFA.

The Directors, including those interested in the businesses of the SPHL Group and the Private Group, will, as and when required under the Company's Bye-Laws, abstain from voting on any resolution of the Board in respect of any contract, arrangement or proposal in which he/she or any of his/her associates has a material interest.

CORPORATE GOVERNANCE

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

The Board is responsible for the overall management of the Group's business. Mr. Hui Wing Mau as Chairman heads the Board whilst Mr. Chung Shui Ming, Timpson as Chief Executive Officer is responsible for the operations of the Group. Their roles are clearly segregated. The Board currently comprises nine Directors, one third of which is independent non-executive Directors.

The Company has set up an Executive Committee, an Audit Committee and a Remuneration Committee under the Board. The Board considers the recommendations on matters relating to the nomination and appointment of Directors to be the Board's collective efforts and thus does not intend to set up a Nomination Committee.

The Company has in compliance throughout the year ended 31st December 2004 with the Code of Best Practice as was then set out in Appendix 14 to the Listing Rules, except that the independent non-executive Directors of the Company were not appointed for any specific terms.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed they had complied with the required standard set out in the Model Code.

EXECUTIVE COMMITTEE

The Company has established an Executive Committee consisting of three Directors, namely Mr. Hui Wing Mau, Mr. Chung Shui Ming, Timpson and Miss Hui Mei Mei, Carol. The Committee serves as an executive arm of the Board in the formulation of policies for consideration of the Board, and in carrying out and implementing the policies laid down by the Board. The Committee is delegated with all the powers and authorities of the Board and shall keep regular minutes of its meetings, resolutions and other actions, and report the same to the Board.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference which describe the authority and duties of the Audit Committee. The terms of reference were prepared and adopted with reference to the guidelines published by the Hong Kong Institute of Certified Public Accountants and the relevant provisions in the latest edition of the Listing Rules.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee currently comprises three independent non-executive Directors, namely Professor Lee Chack Fan, Mr. Liu Hing Hung and Dr. Zhu Wenhui. Two meetings were held during the current financial year.

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REMUNERATION COMMITTEE

The Company has established a Remuneration Committee with written terms of reference. The function of the Committee is to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration of the executive Directors and senior management. The written terms of reference which describe the authority and duties of the Remuneration Committee were prepared with reference to the relevant provisions in the latest edition of the Listing Rules.

The Committee comprises two independent non-executive Directors, namely Professor Lee Chack Fan and Mr. Liu Hing Hung and one executive Director namely Miss Hui Mei Mei, Carol.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the date of this annual report, the Company has maintained sufficient public float as required by the Listing Rules.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Hui Wing Mau

Chairman

Shanghai, 22nd April 2005