

Report of the Directors

The directors (“Directors”) present their report and the audited accounts of Shimao International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 31st December 2005.

Principal activities

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 19 to the accounts.

Change of company name

Pursuant to the special resolution approved by the shareholders of the Company and the approval of the Registrar of Companies in Bermuda, the name of the Company was changed to Shimao International Holdings Limited on 21st June 2005 and the Chinese name adopted by the Company was 世茂國際控股有限公司.

Results and appropriations

The results of the Group for the year ended 31st December 2005 are set out in the consolidated profit and loss account on page 32.

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31st December 2005.

Reserves

Movement in the reserves of the Group and of the Company during the year are set out in note 23 to the accounts.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK\$116,500.

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Property, plant and equipment

Details of property, plant and equipment of the Group during the year are set out in note 15 to the accounts.

Directors

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

Chairman and Non-executive Director

Mr. Hui Wing Mau (redesignated as Non-executive Director on 19th February 2005)

Executive Directors

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)

Mr. Ip Wai Shing (resigned on 19th February 2005)

Mr. Tang Ping Fai (resigned on 19th February 2005)

Ms. Yao Li (resigned on 19th February 2005)

Mr. Chung Shui Ming, Timpson (resigned on 1st October 2005)

Independent Non-executive Directors

Professor Lee Chack Fan

Mr. Liu Hing Hung

Dr. Zhu Wenhui

Mr. Lu Hong Bing (resigned on 19th February 2005)

Mr. Yu Hon To, David (resigned on 19th February 2005)

In accordance with bye-law 87 of the Company's bye-laws, Mr. Hui Wing Mau, Miss Hui Mei Mei, Carol and Mr. Liu Hing Hung will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The remaining Directors will remain in office.

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.

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The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“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 securities.

Directors’ interests in contracts

The Company entered into (1) a non competition undertaking with Mr. Hui Wing Mau (“Mr. Hui”), 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 (“Value Ahead”). Details of these two transactions are set out in the section headed “Connected Transactions” of this report.

Save as disclosed above, 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.

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Directors' and chief executive's interests and short positions in the share capital of the Company and the associated corporations

At 31st December 2005, 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 Issuers ("Model Code") contained in the Listing Rules were as follows:

Interests in the Company

Name of director	Personal Interests	Number of ordinary shares		Total
		Corporate Interests	Other Interests	
Mr. Hui Wing Mau	–	185,185,185 <i>(Note 1)</i>	618,571,397 <i>(Note 2)</i>	803,756,582
Miss Hui Mei Mei, Carol	–	–	618,571,397 <i>(Note 2)</i>	618,571,397
Mr. Hui Sai Tan, Jason	–	–	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 Developments Limited assuming full conversion of the convertible note. Since the entire issued share capital of Dynamic Keen Developments Limited is wholly owned by Mr. Hui Wing Mau, Mr. Hui is taken to be interested in these 185,185,185 shares under the SFO.
- (2) 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 as trustee of The W M Hui Family Trust, a discretionary trust set up by Mr. Hui Wing Mau for the benefit of his wife and children. Miss Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason are the children of Mr. Hui Wing Mau and accordingly, Mr. Hui Wing Mau, Miss 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.

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.

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Share option schemes

On 13th June 2005, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 24th June 1998 and the adoption of a new share option scheme for compliance with the amended rules of Chapter 17 of the Listing Rules (the “New Scheme”).

The New Scheme serves the purpose of enabling the Company to grant options to Directors and employees of the Group as incentive or rewards for their contribution to the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and provide benefits to such employees or directors.

As at 31st December 2005, 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 of the Company 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 2005, 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
Dynamic Keen Developments Limited	185,185,185 (<i>Note 1</i>)	22.38%
Perfect Zone International Limited	618,571,397 (<i>Note 2</i>)	74.74%
Overseas Investment Group International Limited	618,571,397 (<i>Note 2</i>)	74.74%
Trident Corporate Services (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 Developments Limited assuming full conversion of the convertible note. Since the entire issued share capital of Dynamic Keen Developments Limited is wholly owned by Mr. Hui Wing Mau, Mr. Hui is taken to be interested in these 185,185,185 shares under the SFO.
- (2) 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 as trustee of The W M Family Trust, a discretionary trust set up by Mr. Hui Wing Mau, a director of the Company, for the benefit of his wife and children.

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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 83.1% of the Group's total purchases 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

- (1) The Company announced on 23rd February 2005 (the "Suifenhe Announcement") the acquisition by the Company of the entire issued share capital of, and the amount due from, Value Ahead Investments Limited ("Value Ahead") from Mr. Hui and his associate at an aggregate consideration of HK\$496,220,000 (the "Acquisition"). The principal asset of Value Ahead is the effective interest in the Suifenhe Shimao Development Project (as defined in the Suifenhe Announcement). Details of the Acquisition and the Suifenhe Shimao Development Project have been set out in the Company's 2004 annual report and the circular issued to shareholders of the Company on 25th May 2005. In a Special General Meeting held on 13th June 2005, the Acquisition and transactions contemplated thereunder were duly approved by independent shareholders by way of poll. Results of the Special General Meeting were announced on 13th June 2005 and the Acquisition completed on 24th June 2005.

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- (2) The Company announced on 23rd February 2005 the Group's plan to pursue a business strategy of property development and investment in international markets (including Hong Kong) outside mainland PRC and the entering into of a non-competition undertaking (the "Undertaking") dated 19th February 2005 with Mr. Hui Wing Mau, the Chairman and a non-executive Director of the Company, and other parties including Shimao Property Holdings Limited ("SPHL"), a company then wholly-owned by Mr. Hui, whereby the parties thereto agree 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 were contained in the circular of the Company dated 26th February 2005 (the "Circular") and a Special General Meeting was held on 14th March 2005 to consider and if appropriate to approve the Undertaking. As the Listing Committee of the Stock Exchange later took the view that the principles of spin-off application under Practice Note 15 of the Listing Rules should apply by the Stock Exchange in considering the Undertaking (the "Decision"), the said Special General Meeting was adjourned and the Company also submitted a written request for a review of the Decision to the Listing (Review) Committee of the Stock Exchange on 7th April 2005. Details of the development have been set out in the Company's 2004 annual report.

The Company announced on 10th August 2005 that following a review hearing on the Decision, the Listing (Review) Committee has decided to overturn the Decision and ruled that Practice Note 15 of the Listing Rules was not applicable to the Undertaking. The Company then reissued the Circular to shareholders of the Company on 31st August 2005 with revised and updated information to address certain points raised by the Listing (Review) Committee and reconvened the adjourned Special General Meeting. The adjourned Special General Meeting was held on 15th September 2005 in which the ordinary resolution relating to the approval of the Undertaking and transactions contemplated thereunder was duly passed by independent shareholders by way of poll. Results of the adjourned Special General Meeting were announced on 15th September 2005.

Pursuant to the Undertaking, so long as Overseas Investment Group International Limited, the controlling shareholder of the Company, 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 mainland PRC (excluding Taiwan, Hong Kong and Macau), except that the Company may continue to hold its interest in the Dongfanghong Shopping Centre, the three retail units in Epoch Centre Phase II and the 50% interest in Shimao Lakeside Garden (the "Existing PRC Interests"). All the parties to the Non-competition Undertaking further agreed that Suifenhe Shimao Development Project shall not constitute property business in mainland PRC.

The Board, including the independent non-executive directors, has reviewed the property business undertaken by the Group for the year 2005 (including the Existing PRC Interests, Suifenhe Shimao Development Project and the residential project "No. 21 Severn Road" in Hong Kong) and confirmed that the Group complied with the Undertaking during the period between 15th September 2005, the effective date of the Undertaking, and 31st December 2005.

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Continuing disclosure requirement under Rule 13.21 of the Listing Rules

The Company announced on 22nd June 2005 that a wholly-owned subsidiary of the Company entered into a Facility Letter with a bank on 22nd June 2005 (the “Facility Letter”) for a term loan facility of up to HK\$349,200,000 (the “Facilities”). The Facilities will expire as follows:

Facilities Amount	Expiry Date
HK\$129,200,000	22nd March 2017
HK\$100,000,000	One year from date of drawdown
HK\$120,000,000	Two years from date of drawdown

The Facility Letter includes, inter alia, a condition to the effect that Perfect Zone International Limited, the controlling shareholder of the Company, will at all times own not less than 51% of all the issued share capital of the Company. A breach of the above condition will constitute an event of default under the Facility Letter. If such an event of default occurs, the Facilities will become immediately repayable. The Facilities have been used to finance the general corporate funding requirements of the Company and its subsidiaries.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set in note 35 to the accounts.

Directors' interests in 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 Wing Mau, the Chairman and a non-executive Director, currently owns property development interests in the PRC through (1) a group of companies 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”). 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.

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

Project	Location	Planned Use	SPHL's Interest in the Project
Shanghai Shimao Riviera Garden	Shanghai	Residential, Mall, Office	100%
Shanghai Shimao International Plaza	Shanghai	Hotel, Mall	100%
Shanghai Shimao Sheshan	Shanghai	Residential, Hotel	100%
Shanghai Hyatt on the Bund	Shanghai	Hotel	100%
Shanghai Shimao Wonderland	Shanghai	Hotel, Mall	100%
Beijing Shimao Olive Garden	Beijing	Residential, Mall	100%
Kunshan Shimao Butterfly Bay	Kunshan	Residential, Mall, Hotel	100%
Kunshan Shimao International City	Kunshan	Residential, Mall	100%
Changshu Shimao The Center	Changshu	Residential, Mall, Office, Hotel	100%
Harbin Shimao Riviera New City	Harbin	Residential, Mall	100%
Wuhan Shimao Splendid River	Wuhan	Residential, Mall, Office, Hotel	100%
Nanjing Shimao Riviera New City	Nanjing	Residential, Mall, Hotel	50%
Fuzhou Shimao Bund Garden	Fuzhou	Residential, Mall	50%

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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
Zhenshi Development Zone	Fujian Province	Composite
Wuyi Tourist Resort	Fujian Province	Tourist and resort
Gold Coast Resort	Fujian Province	Tourist and resort
Asia Games Garden	Beijing	Residential
Zizhu Garden	Beijing	Residential
Royal Garden	Beijing	Residential
Epoch Centre	Beijing	Residential, Commercial
Zhenshi Hotel	Fujian Province	Hotel
Wuyishan Fishing Lake Hotel	Fujian Province	Hotel

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 board resolution 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 safeguard the interests of the shareholders of the Company. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 12 to page 19.

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 report, the Company has maintained sufficient public float as required by the Listing Rules.

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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

Hong Kong, 24th April 2006