

Report of the Directors





Report of the Directors

The directors (the "Directors") of Shima Property Holdings Limited (the "Company") have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property development and investment. The principal activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements.

THE ISSUE AND LISTING OF SHARES

The company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 July 2006 and offered and issued 684,392,500 shares (including the shares issued upon the exercise of the over-allotment option) by way of public offer in Hong Kong and international placing at an issue price of HK\$6.25 per share.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 are set out on pages 56 to 120 of this annual report.

The Directors recommended the payment of a final dividend of HK20 cents (2005: N/A) per share in respect of the year ended 31 December 2006. No interim dividend was paid for the year ended 31 December 2006.

The dividend will be payable on 3 May 2007 to the shareholders whose names appear on the register of members of the Company on 26 April 2007. The register of members of the Company will be closed from Monday, 23 April 2007 to Thursday, 26 April 2007 (both days inclusive). In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 20 April 2007.

RESERVES

Movement in the reserves of the Company and the Group during the year are set out in note 19 to the financial statements.

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 30% 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.

BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Company and the Group as at 31 December 2006 are set out in note 20 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB8,120,000 (2005: RMB6,174,000).

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 18 to the consolidated financial statements.

Details of the movements of the share options of the Company during the year are set out in Report of the Directors on page 47 of this annual report.

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 4 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

DIRECTORS

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

Executive Directors

Mr. Hui Wing Mau (*Chairman*)

Mr. Hui Sai Tan, Jason

Mr. Ip Wai Shing (appointed on 25 January 2006)

Mr. Tang Ping Fai (appointed on 25 January 2006)

Ms. Yao Li (appointed on 25 January 2006)

Report of the Directors

Independent Non-executive Directors

Ms. Kan Lai Kuen, Alice	(appointed on 16 March 2006)
Mr. Lu Hong Bing	
Mr. Gu Yunchang	(appointed on 13 April 2006)
Mr. Lam Ching Kam	(appointed on 1 June 2006)

Directors

Mr. Yu Hon To, David	(resigned on 9 January 2006)
Mr. Cai Lai Xing	(resigned on 15 February 2006)
Mr. Chen Fan	(appointed on 24 February 2006 and resigned on 17 March 2006)
Ms. Hui Mei Mei, Carol	(resigned on 21 April 2006)

In accordance with article 87 of the Company's articles of association, Mr. Hui Wing Mau, Mr. Hui Sai Tan, Jason and Mr. Lu Hong Bing will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

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 Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange. The Company considers all the Independent Non-executive Directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its 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.

INFORMATION ON SHARE OPTIONS

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") on 9 June 2006.

(1) Pre-IPO Share Option Scheme

- (a) Movement of share options (“Pre-IPO Option”) granted under the Pre-IPO Share Option Scheme during the period from 1 January 2006 to 31 December 2006 were as follows:

Name	Date of grant	Exercise price per share	As at 1 January 2006	Number of share options			As at 31 December 2006
				Granted	Exercised	Lapsed	
Directors							
Mr. Hui Sai Tan, Jason	9 June 2006	HK\$5.625	—	2,640,000	—	—	2,640,000
Mr. Ip Wai Shing	9 June 2006	HK\$5.625	—	2,560,000	—	—	2,560,000
Mr. Tang Ping Fai	9 June 2006	HK\$5.625	—	2,640,000	—	—	2,640,000
Ms. Yao Li	9 June 2006	HK\$5.625	—	2,640,000	—	—	2,640,000
			—	10,480,000	—	—	10,480,000
Senior Management of the Company (in aggregate)							
	9 June 2006	HK\$5.625	—	6,450,000	—	—	6,450,000
Other employees and officers of the Group (in aggregate)							
	9 June 2006	HK\$5.625	—	46,990,000	—	—	46,990,000
			—	63,920,000	—	—	63,920,000

- (b) The purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimize their performance and efficiency, and also to retain the participants whose contributions are important to the long-term growth and profitability of the Group.
- (c) Pursuant to the shareholders’ resolution passed on 9 June 2006 for approval of the Pre-IPO Share Option Scheme, options for a total of 63,920,000 ordinary shares of the Company have been conditionally granted to directors and selected employees.
- (d) Each option has a 6-year exercise period with 30% vesting on 31 March 2007, another 30% vesting on 31 March 2008 and the remaining 40% vesting on 31 March 2009.
- (e) The consideration paid by each grantee for each grant of options is HK\$1.00.

Report of the Directors

- (f) Performance targets have been imposed as conditions for the grant under the Pre-IPO Share Option Scheme.
- (g) Upon listing of the Company on 5 July 2006, the Pre-IPO Share Option Scheme was terminated but the options granted but not yet exercised shall continue to be valid and exercisable in accordance with the terms of the Pre-IPO Share Option Scheme.
- (h) Save as disclosed above, no options were granted, cancelled or lapsed under the Pre-IPO Share Option Scheme as at 31 December 2006.
- (i) The fair value of the Pre-IPO Options granted is measured based on a binomial lattice model, details of which are set out in note 18 to the financial statements.

Other details of the Pre-IPO Share Option Scheme are set out in note 18 to the consolidated financial statements.

(2) Share Option Scheme

- (a) The purpose of the Share Option Scheme is to provide the participants the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company for the benefit of the Company and shareholders of the Company as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the participants.
- (b) The Directors may, at their discretion, invite any directors, employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group to participate in the Share Option Scheme.
- (c) The total number of shares which may be issued upon exercise of all options (the "Share Options") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.
- (d) The total number of shares issued and to be issued upon exercise of the Share Options granted to each participant under the Share Option Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue and any further grant of Share Options which would result in the number of shares of the Company issued as aforesaid exceeding the said 1% limit must be approved by the shareholders of the Company.
- (e) The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the Share Options expire no later than 10 years from the relevant date of grant.

- (f) The exercise price of the Share Options shall be no less than the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.
- (g) The amount payable by a grantee on acceptance of a grant of Share Options is HK1.00.
- (h) The Share Option Scheme will expire on 8 June 2016.
- (i) No options were granted, cancelled or lapsed under the Share Option Scheme as at 31 December 2006.

DISCLOSURE OF INTERESTS IN SECURITIES

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

At 31 December 2006, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules were as follows:

(1) Long positions in the shares of the Company

Name of Director	Capacity	Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
Mr. Hui Wing Mau	—	(Note)	2,000,000,000	65.26%

Note: These 2,000,000,000 shares represents the interests in the Company held by Gemfair Investments Limited, a company which is directly wholly-owned by Mr. Hui Wing Mau.

(2) Long positions in the underlying shares of the Company

Share options were granted to Mr. Hui Sai Tan, Jason, Mr. Ip Wai Shing, Mr. Tang Ping Fai and Ms. Yao Yi pursuant to the pre-IPO share option scheme. Details in relation to the share options were stated in the section under the heading "Information on Share Options".

Report of the Directors

(3) Long positions in the shares of associated corporation — Shimao International Holdings Limited

Name of Director	Capacity	Personal interests	Corporate interests	Other interests	Total number of ordinary shares held
Mr. Hui Wing Mau	—	—	185,185,185 (Note 1)	618,571,397 (Note 2)	803,756,582
Mr. Hui Sai Tan, Jason	—	—	—	618,571,397 (Note 2)	618,571,397
Mr. Ip Wai Shing	Beneficial Owner	528,000	—	—	528,000
Mr. Tang Ping Fai	Beneficial owner	30,000	—	—	30,000

Notes:

- (1) These 185,185,185 shares are shares of Shimao International Holdings Limited (“Shimao International”) issuable to Dynamic Keen Developments Limited (“Dynamic Keen”) upon conversion of all the convertible note issued to Dynamic Keen. Since the entire issued share capital of Dynamic Keen is owned by Mr. Hui Wing Mau, Mr. Hui Wing Mau is taken to be interested in these 185,185,185 shares of Shimao International under the SFO.
- (2) These 618,571,397 shares in Shimao International represents the interests in Shimao International which is held by Perfect Zone International Limited, a company which is directly wholly-owned by Overseas Investment Group International Limited as trustee of The W.M. Hui Unit Trust, all the units of which are held by Trident Trust Company (B.V.I.) Limited (formerly known as Trident Corporate Services (B.V.I.) Limited) as trustee of The W.M. Hui Family Trust established by Mr. Hui Wing Mau for the benefit of his wife and children. Mr. Hui Sai Tan, Jason is the son of Mr. Hui Wing Mau and accordingly, Mr. Hui Wing Mau and Mr. Hui Sai Tan, Jason are deemed to be interested in the interests by virtue of the SFO.

Save as disclosed above, no other 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) were recorded in the Register.

DIRECTORS’ RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, any of its subsidiaries, or its 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, the interests and short positions of substantial shareholders 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 as follows:

Long/short positions in the shares of the Company

Name	Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
Long positions			
Gemfair Investments Limited ("Gemfair")	(Note 1)	2,000,000,000	65.26%
Overseas Investment Group International Limited ("Overseas Investment")	(Note 2)	2,000,000,000	65.26%
GSS III Nimble Holdings Limited ("GSS III Nimble")	(Note 3)	238,049,466	7.77%
Global Special Situations Funding III, L.P.	(Note 3)	238,049,466	7.77%
GSS III Funding, Inc.	(Note 3)	238,049,466	7.77%
Morgan Stanley	(Note 3)	257,419,528	8.40%
Short positions			
Morgan Stanley	(Note 3)	14,700,000	0.48%

Notes:

- (1) The interests disclosed represents the interests in the Company which is held by Gemfair, a company which is directly wholly-owned by Mr. Hui Wing Mau.
- (2) The interests disclosed represents the right of Overseas Investment to vote on behalf of Gemfair as a shareholder at general meetings of the Company, pursuant to a deed dated 12 June 2006 between Gemfair and Overseas Investment, as long as Mr. Hui Wing Mau or his associates (directly or indirectly) hold not less than a 30% interest in the Company. Overseas Investments is the trustee of W.M. Hui Unit Trust, all the units of which are held by W.M. Hui Family Trust of which Mr. Hui Wing Mau and his immediate family are discretionary objects.
- (3) GSS III Nimble is owned by Global Special Situations Funding III, L.P., which is controlled and managed by its general partner, GSS III Funding, Inc.. GSS III Funding, Inc. is in turn wholly-owned by Morgan Stanley. Pursuant to the SFO, each of Global Special Situations Funding III, L.P., GSS III Funding, Inc. and Morgan Stanley is deemed to be interested in the 238,049,466 shares in which GSS III Nimble is interested.

Save as disclosed above, no other interest or short positions in the shares and underlying shares of the Company were recorded in the Register.

ENFORCEMENT OF THE NON-COMPETITION UNDERTAKING

Pursuant to a non-competition undertaking (the “Undertaking”) dated 19 February 2005 entered into among the Company, Shanghai Shimao Co Ltd., Shanghai Shimao Enterprises Development Co. Ltd., Overseas Investment Group International Limited, Mr. Hui Wing Mau, Mr. Xu Shiyong and Shimao International Holdings Limited, whereby the parties thereto agree to delineate their respective property business on the terms and conditions set out therein.

In respect of the property business undertaken by all other parties to the Undertaking, Mr. Hui Wing Mau has provided a written confirmation to the Company based on the information available to him, that all parties have conducted their property business in compliance with the terms of the Undertaking during the year 2006 (the “Mr. Hui’s Confirmation”).

Certain information relating to the property projects undertaken by each of the parties to the Undertaking during the year ended 31 December 2006, which is relevant for determining whether the property projects fall within the permitted business scope of each party pursuant to the Undertaking, is summarised (the “Information”). Such information primarily comprises the location, project size in terms of total gross floor areas, and development purposes of each property project, which if it relates to property projects undertaken prior to the Company’s listing, those details are stated in the Company’s prospectus dated 22 June 2006. The Company has prepared the Information relating to the property projects undertaken by the Group and has secured the Information relating to property projects undertaken by all the other parties to the Undertaking. All the Information and Mr. Hui’s Confirmation have been passed to the independent non-executive directors of the Company for their review and strictly based on the Information provided by the Company, they have noted no incidence of non-compliance with the Undertaking by the Group or by any of the other relevant parties.

The Company has also engaged its auditors to perform certain agreed-upon procedures strictly based on the Information provided by the Company. The agreed-upon procedures primarily comprise the checking of the Information to the Undertaking to identify any incidence of non-compliance and no exception has been reported by our auditors. The work performed by our auditors in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by our auditors.

As regards to the accuracy and completeness of the Information relating to parties to the Undertaking other than the Company, Mr. Hui Wing Mau and his nephew Mr. Xu Shiyong, who provided such information to the Company, are solely responsible for each of himself and the relevant parties under each of their supervision.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the period from 5 July 2006 (date of listing of the shares of the Company) to 31 December 2006, 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 an Executive Director, currently owns property development interests in the PRC through (1) a group of companies owned by Shimao International Holdings Limited (collectively the "Shimao International Group") (2) a number of private companies either wholly-owned by Mr. Hui Wing Mau or owned jointly with his wife and/or Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason (an Executive Director of the Company) (collectively the "Private Group").

The Directors, including those interested in the businesses of the Shimao International Group and the Private Group, will, as and when required under the Company's Articles of Association, 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.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the consolidated financial statements.

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float since the listing of the shares of the Company on the Stock Exchange on 5 July 2006.

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 Company's corporate governance principles and practices is set out in the Corporate Governance Report on page 35 to page 41 of this annual report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

On behalf of the Board

Hui Wing Mau
Chairman

Hong Kong, 27 March 2007