

Corporate Governance Report

Shimao International Holdings Limited (the “Company”) is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Company and its subsidiaries (together the “Group”) and safeguard the interests of the shareholders of the Company.

A.1 The Board of Directors

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer’s affairs. Directors should take actions objectively in the interests of the issuer.

The board (“Board”) of directors (“Directors”) of the Company consisted of eight directors. The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company’s affairs. The Board is committed to the Company’s objective of consistent growth and development and increase in shareholder value. The Board sets strategies for the Company and monitors the performance and activities of the executive management.

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the financial year ended 31st December 2005, the Board held nine meetings. The attendance of the Directors at the Board meetings are set out below:

Directors	Number of attendance
Chairman and Non-executive Director:	
Hui Wing Mau	7/9
Executive Directors:	
Hui Mei Mei, Carol	6/9
Hui Sai Tan, Jason	3/9
Tung Chi Shing (appointed on 19th February 2005)	6/6
Chan Loo Shya (appointed on 19th February 2005)	6/6
Ip Wai Shing (resigned on 19th February 2005)	3/3
Tang Ping Fai (resigned on 19th February 2005)	1/3
Yao Li (resigned on 19th February 2005)	2/3
Chung Shui Ming, Timpson (resigned on 1st October 2005)	7/8
Independent Non-executive Directors:	
Lee Chack Fan	6/9
Liu Hing Hung	9/9
Zhu Wenhui	8/9
Lu Hong Bing (resigned on 19th February 2005)	1/3
Yu Hon To, David (resigned on 19th February 2005)	3/3

Corporate Governance Report

A.2 Chairman and Chief Executive Officer

There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer’s business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

The role of Chairman of the Board and the chief executive officer are segregated, with a clear division of responsibilities. The Chairman of the Board is a non-executive Director, while the chief executive officer of the Company will be an executive Director. While the Board is led by the non-executive Chairman, the chief executive officer will exercise all the powers, authorities and discretions of the Executive Committee as may be delegated to him in respect of the Company and its subsidiaries. Following the resignation of the chief executive officer of the Company in October 2005, the Company is looking for a suitable candidate to take up the position of chief executive officer.

A.3 Board Composition

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their reviews to carry weight.

The Company benefits from the collective experience of its Directors, who come from a variety of different backgrounds. Brief biographical particulars of all the Company’s Directors, together with information relating to the relationship among them, is set out in the “Directors and Senior Management Profiles” section under the Company’s 2005 Annual Report. Their diverse range of business and professional expertise ensures that the Board has the skills and experience necessary to both promote the Company’s success and monitor its affairs.

The Board comprises four executive Directors and four non-executive Directors. Of the four non-executive Directors, three are independent non-executive Directors which represent more than one-third of the Board. All the independent non-executive Directors meet the guidelines for assessment of independence, as set out in Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”).

Corporate Governance Report

A.4 Appointments, Re-election and Removal of Directors

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Each of the non-executive Directors of the Company has entered into a service contract with the Company for a specific term. However, such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the bye-laws of the Company (“Bye-Laws”). A special resolution was passed on 23rd May 2005 to amend the bye-laws of the Company such that each director shall retire from office by rotation no later than the third annual general meeting of the Company after he was last elected or re-elected and directors holding offices as chairman and managing director are also subject to retirement by rotation.

A.5 Responsibilities of Directors

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed Director of the Company shall receive an information package from the company secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director. In addition, the package includes materials on the operations and business of the Company. The senior management and the company secretary will subsequently conduct such briefing as is necessary, to ensure that the Directors have a proper understanding of the operations and business of the Company and that they are aware of their responsibilities under the laws and applicable regulations.

Management provides appropriate and sufficient information to Directors in a timely manner to keep them apprised of the latest development of the Group and enable them to discharge their responsibilities. Directors also have independent access to senior executives in respect of operating issues.

Every Director is aware that he should give sufficient time and attention to the affairs of the Company. The Directors are continually updated with legal and regulatory developments, business and market changes and strategic development of the Group to facilitate the discharge of their responsibilities.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“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.

Corporate Governance Report

A Code for Securities Transaction by Relevant Employees which is on no less exacting terms than the Model Code has been adopted by the Board on 19th August 2005.

A.6 Supply of and Access to Information

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers are sent in full to all Directors in a timely manner and at least 3 days before the intended date of a Board meeting.

Management are regularly reminded by the company secretary that they have an obligation to supply the Board and its Committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable.

All Directors are entitled to have access to Board papers, minutes and related materials.

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

B.1 The Level and Make-up of Remuneration of Directors and Senior Management and Disclosure

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Company has established a Remuneration Committee in March 2005 with specific written Terms of Reference which deal clearly with its authority and duties. The Remuneration Committee determines the Group's remuneration policy and reviews, in particular, the remuneration packages of the chief executive and the senior management. It also makes recommendations to the Board on the annual salary adjustment and provision of the performance bonus.

A majority of the members of the Remuneration Committee are independent non-executive Directors. This Committee is chaired by Miss Hui Mei Mei, Carol. The other members are Mr. Lee Chack Fan and Mr. Liu Hing Hung.

Corporate Governance Report

Attendance of individual members at Remuneration Committee meetings in 2005 are as follows:

Directors	Number of attendance
Hui Mei Mei, Carol	1/1
Lee Chack Fan	0/1
Liu Hing Hung	1/1

C.1 Financial Reporting

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs and the results and cash flow for the year. In preparing the accounts for the year ended 31st December 2005, the Directors have selected suitable accounting policies and applies them consistently; adopted appropriate accounting standards; made judgements and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

The Company recognizes that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual and interim results of the Company are announced in a timely manner within the limit of 4 months and 3 months respectively after the end of the relevant periods.

A statement by the external auditors about their reporting responsibilities is included in the Report of the Auditors on page 31.

C.2 Internal Controls

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Directors conduct a review of the effectiveness of the system of internal control of the Company which cover all material controls, including financial, operational and compliance controls and risk management functions. The report and findings prepared by the internal audit team will be circulated to the Audit Committee.

Corporate Governance Report

C.3 Audit Committee

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.

The Company has established an Audit Committee with specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee have included the duties set out in Code Provision C.3.3 (a) to (n) of the Code, with appropriate modifications where necessary.

As laid down in the Terms of Reference, the Audit Committee is responsible for reviewing the financial controls, internal control and risk management systems, annual report and accounts, and half-year report.

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Liu Hing Hung, Mr. Lee Chack Fan and Mr. Zhu Wenhui. Mr. Liu Hing Hung is the chairman of the Audit Committee.

Attendance of individual members at Audit Committee meetings in 2005 are as follows:

Directors	Number of attendance
Liu Hing Hung	2/2
Lee Chack Fan	2/2
Zhu Wenhui	2/2

Full minutes of Audit Committee meetings are kept by the company secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Committee for their comment and records respectively.

The Audit Committee meets the external auditors at least once a year to discuss any areas of concerns during the audits without the presence of the management. The Audit Committee reviews the interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Corporate Governance Report

The remuneration paid and payable to the Company's auditors, Messrs. PricewaterhouseCoopers, in respect of the services rendered for the year ended 31st December 2005 is set out as follows:

Services rendered	Fee paid/payable <i>HK\$'000</i>
Audit services	995
Non-audit services:	
Review of interim financial information	230
Circular work in relation to Suifenhe Shimao Development Project	260
	1,485

The Audit Committee is provided with sufficient resources, including the advice of external auditors to discharge its duties.

D.1 Management Functions

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of the management.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of systems of internal controls and risk management procedures, compliance with relevant statutory requirements and rules and regulations.

D.2 Board Committees

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Where Board Committees are established to deal with matters, the Board shall prescribe sufficiently clear Terms of Reference to enable such Committees to discharge their functions properly.

The Terms of Reference of the above-mentioned Committees require such Committees to report back to the Board on their decisions or recommendations. Material matters will be reported to the Board by the other Board committees according to their respective Terms of Reference.

Corporate Governance Report

E.1 Effective Communication

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

The Annual General Meeting provides a useful forum for the shareholders to exchange views with the Board. The Chairman of the Board, the chairmen of the Audit and Remuneration Committees will attend the 2006 Annual General Meeting to answer questions of shareholders.

E.2 Voting by Poll

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Exchange Listing Rules and the constitutional documents of the issuers.

The Bye-Laws 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 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.

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circulars to the shareholders.