

Report of the Directors

The board of directors (the "Board" or the "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 31 December 2006.

Principal Activities

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 1 to the accounts.

Results and Appropriations

The results of the Group for the year ended 31 December 2006 are set out in the consolidated profit and loss account on page 31.

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 December 2006.

Donations

During the year, the Group made charitable and other donations amounting to approximately HK\$100,000.

Property, Plant and Equipment

Details of property, plant and equipment of the Group during the year are set out in note 17 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

Executive Directors

Ms. Hui Mei Mei, Carol

Mr. Tung Chi Shing

Mr. Chan Loo Shya

Mr. Hui Sai Tan, Jason (resigned on 22 June 2006)

Independent Non-executive Directors

Professor Lee Chack Fan

Mr. Liu Hing Hung

Dr. Zhu Wenhui

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In accordance with bye-law 87 of the Company's bye-laws ("Bye-Laws"), Mr. Chan Loo Shya, Professor Lee Chack Fan and Dr. Zhu Wenhui 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.

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 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

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 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 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:

(i) Long positions in the shares of the Company

Name of director	Number of ordinary shares held		Total
	Corporate Interests	Other Interests	
Mr. Hui Wing Mau	185,185,185 (Note 1)	618,571,397 (Note 2)	803,756,582
Ms. Hui Mei Mei, Carol	—	618,571,397 (Note 2)	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 Wing Mau is taken to be interested in these 185,185,185 shares under the SFO.
- (2) The interests disclosed represent the interests 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 Trust Company (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. Ms. Hui Mei Mei, Carol is the daughter of Mr. Hui Wing Mau and accordingly, Mr. Hui Wing Mau and Ms. Hui Mei Mei, Carol are deemed to be interested in the interests by virtue of section 345(4) of the SFO.

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

Share options were granted to Ms. Hui Mei Mei, Carol, Mr. Tung Chi Shing and Mr. Chan Loo Shya pursuant to a share option scheme adopted by the Company on 13 June 2005. Details in relation to the share options were stated in the section under the heading "Share Option Scheme".

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(iii) Long positions in the shares of associated corporation

— *Shimao Property Holdings Limited*

Name of director	Number of ordinary shares held
Mr. Hui Wing Mau	2,000,000,000 (Note)

Note: These 2,000,000,000 shares represent the interests in Shimao Property Holdings Limited held by Gemfair Investments Limited, a company directly wholly-owned by Mr. Hui Wing Mau.

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 Option Scheme

The Company has adopted a share option scheme ("Share Option Scheme") on 13 June 2005.

Movement of share options ("Share Options") granted under the Share Option Scheme during the year was 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							
Hui Mei Mei, Carol	8 August 2006	HK\$0.59	—	8,270,000	—	—	8,270,000
Tung Chi Shing	8 August 2006	HK\$0.59	—	8,270,000	—	—	8,270,000
Chan Loo Shya	8 August 2006	HK\$0.59	—	3,880,000	—	—	3,880,000
			—	20,420,000	—	—	20,420,000
Employees of the Group							
(in aggregate)	8 August 2006	HK\$0.59	—	12,050,000	—	—	12,050,000
			—	32,470,000	—	—	32,470,000

- (a) The purpose of the Share Option Scheme is to enable 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 Directors or employees.

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- (b) The Board may at its discretion grant options to any employees including Directors of the Group.
- (c) The total number of shares available for issue under the Share Option Scheme is 50,293,988 shares representing approximately 6.1% of the issued share capital at 31 December 2006.
- (d) No Share Options may be granted to any eligible persons, which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the Share Options already granted or to be granted to such eligible person under the Share Option Scheme and any other schemes of the Company (including exercised, cancelled and outstanding Share Options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital as at the date of such new grant. Any grant of further Share Options above this limit shall be subject to certain requirements as stipulated in the rules of the Share Option Scheme.
- (e) The period within which the shares must be taken up under the Share Options granted on 8 August 2006 will begin on 1 April 2007 and end on the business day immediately preceding the fifth anniversary thereof.
- (f) The minimum period for the Share Options granted on 8 August 2006 must be held before it can be exercised starts from the date of grant up to 31 March 2007.
- (g) The consideration paid by each grantee for each grant of options is HK\$1.00.
- (h) The exercise price is determined by the Directors and being not less than the highest of:
 - i) the closing price of the Company's shares in the Stock Exchange's daily quotations sheet on the date of grant of the relevant Share Options;
 - ii) an amount equivalent to the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant Share Options; and
 - iii) the nominal value of the Company's shares.
- (i) The Share Option Scheme will be valid for a period of 10 years commencing on the date of its adoption.

The fair value of the Share Options granted is measured based on the Binomial model, details of which are set out in note 31 to the accounts.

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.

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Substantial Shareholders

At 31 December 2006, 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 ordinary shares held	Approximate percentage of issued share capital
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 Trust Company (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 Wing Mau is taken to be interested in these 185,185,185 shares under the SFO.
- (2) The interests disclosed represents the interests in the Company 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 Trust Company (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.

Save as disclosed above, no other person (other than a Director or chief executive of the Company) had interests or short positions 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 5% of the Group's total turnover and 56% 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.

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Continuing Connected Transaction and Connected Transaction

- (1) On 12 June 2006, Shimao (Hong Kong) Investment Limited ("Shimao (Hong Kong)"), an indirect wholly-owned subsidiary of the Company, entered into a property licence agreement ("Licence Agreement") with Shimao Property Holdings Limited ("SPHL"), pursuant to which Shimao (Hong Kong) has agreed to grant a licence to SPHL the right to use the premises ("Premises") situated on Units 4307-4312, 43rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong in common with Shimao (Hong Kong). As at the date of the Licence Agreement, SPHL was owned as to 84.02% by Mr. Hui Wing Mau ("Mr. Hui"), Chairman and non-executive Director of the Company. Mr. Hui was therefore a connected person of the Company and the Licence Agreement constituted a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Details of the Licence Agreement were as follows:-

Term: From 12 June 2006 to 31 December 2008 (both days inclusive)

Licence Fee: HK\$150,300 per month (exclusive of management fee, rates and other service charges and outgoings)

Since the licence fee payable by SPHL under the Licence Agreement for the year ended 31 December 2006 amounted to HK\$997,000 and is less than 25% of the applicable percentage ratios of the Company and the licence fee is less than HK\$10,000,000, the Licence Agreement is only subject to the reporting and announcement requirements and is exempt from independent shareholders' approval requirement. Further details of the Licence Agreement were set out in the announcement of the Company dated 23 June 2006.

The independent non-executive Directors of the Company have reviewed the Licence Agreement and confirmed that the transaction for the year ended 31 December 2006 has been carried out on normal commercial terms, in the ordinary and normal course of business of the Company, and in accordance with the relevant agreement governing such transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Messrs. Deloitte Touche Tohmatsu, the auditors of the Company, have reviewed the transaction for the year ended 31 December 2006 and reported that:

- (a) the transaction was approved by the Board;
- (b) the transaction was in accordance with the pricing policy of the Group;
- (c) the transaction has been entered into in accordance with the Licence Agreement; and
- (d) the transaction did not exceed the annual cap as disclosed in the Company's announcement dated 23 June 2006.

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- (2) Pursuant to a non-competition undertaking (the “Undertaking”) dated 19 February 2005 entered into among the Company, Overseas Investment Group International Limited, Mr. Hui Wing Mau and other parties including 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.

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 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 during the year 2006 (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 year 2006.

Post Balance Sheet Event

Details of the significant post balance sheet event of the Group are set in note 40 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 non-executive Director, currently owns property development interests in the PRC through (1) SPHL (2) a number of private companies either wholly-owned by Mr. Hui or owned jointly with his wife and/or Ms. Hui Mei Mei, Carol (an executive Director) and Mr. Hui Sai Tan, Jason (collectively the “Private Group”). Ms. Hui Mei Mei, Carol, being an executive Director, also hold directorships in the Private Group.

The Directors, including those interested in the businesses of SPHL and the Private Group, will, as and when required under the 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.

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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 9 to page 14.

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.

Auditors

The accounts have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Hui Wing Mau

Chairman

Hong Kong, 16 March 2007