

# 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

The board of directors (the "Board" or the "Directors") of the Company consisted of seven 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 31 December 2006, the Board held four meetings. The attendance of the Directors at the Board meetings are set out below:

Directors	Number of attendance
<b>Chairman and Non-executive Director:</b>	
Hui Wing Mau	4/4
<b>Executive Directors:</b>	
Hui Mei Mei, Carol	4/4
Tung Chi Shing	4/4
Chan Loo Shya	4/4
<b>Independent Non-executive Directors:</b>	
Lee Chack Fan	3/4
Liu Hing Hung	4/4
Zhu Wenhui	4/4

## A.2 CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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, the Company is looking for a suitable candidate to take up the position of chief executive officer.

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## A.3 BOARD COMPOSITION

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 2006 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 three 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").

## A.4 APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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 23 May 2005 to amend the Bye-Laws 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 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.

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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.

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 19 August 2005.

## A.6 SUPPLY OF AND ACCESS TO INFORMATION

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

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 Ms. Hui Mei Mei, Carol. The other members are Mr. Lee Chack Fan and Mr. Liu Hing Hung.

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Attendance of individual members at Remuneration Committee meeting in 2006 are as follows:

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

## C.1 FINANCIAL REPORTING

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 31 December 2006, 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 Independent Auditor's Report on page 29.

## C.2 INTERNAL CONTROLS

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.

## C.3 AUDIT COMMITTEE

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.

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Attendance of individual members at Audit Committee meetings in 2006 are as follows:

Directors	Number of attendance
Liu Hing Hung	3/3
Lee Chack Fan	2/3
Zhu Wenhui	3/3

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.

The remuneration paid and payable to the Company's present auditors, Messrs. Deloitte Touche Tohmatsu ("Deloitte") and past auditors, Messrs. PricewaterhouseCoopers ("PwC"), in respect of the services rendered for the year ended 31 December 2006 is set out as follows:

Services rendered	Fee paid/payable <i>HK\$'000</i>	Fee paid/payable to
Audit services	680	Deloitte
Non-audit services:		
Review of interim financial information	269	Deloitte
Review of financial information of an associate	93	PwC
Circular work in relation to Baltic Pearl Project	909	PwC
	1,951	

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

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## D.1 MANAGEMENT FUNCTIONS

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

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.

## E.1 EFFECTIVE COMMUNICATION

The Annual General Meeting provides a useful forum for the shareholders to exchange views with the Board. The Directors, members of the Board Committees will attend the Annual General Meeting to answer questions of shareholders.

## E.2 VOTING BY POLL

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.