

# Corporate Governance Report

Shimao Property Holdings Limited (the "Company") is committed to achieving and maintaining 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.

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") since 5 July 2006 (date of listing of the shares of the Company) except for one deviation as set out under the paragraph on "Chairman and Chief Executive Officer" below.

## A.1 Board of Directors

The board (the "Board") of directors (the "Directors") of the Company consisted of nine 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 period from 5 July 2006 (date of listing of the shares of the Company) to 31 December 2006, the Board held 2 meetings. The attendance of the Directors at the Board meetings are set out below:

<b>Directors</b>	<b>Number of attendance</b>
<i>Executive Directors:</i>	
Hui Wing Mau ( <i>Chairman</i> )	2/2
Hui Sai Tan, Jason	2/2
Ip Wai Shing	2/2
Tang Ping Fai	2/2
Yao Li	2/2
<i>Independent Non-executive Directors:</i>	
Kan Lai Kuen, Alice	2/2
Lu Hong Bing	2/2
Gu Yunchang	2/2
Lam Ching Kam	2/2

### A.2 Chairman and Chief Executive Officer

The roles of the Chairman and chief executive officer of the Company have not been segregated as required by the provision A.2.1 of the Code.

Mr. Hui Wing Mau is the Chairman of the Company and founder of the Group. With Mr. Hui's extensive experience in property development and investment, he is responsible for the overall strategic planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high calibre individuals. The Board currently comprises five Executive Directors and four Independent Non-executive Directors and therefore has a strong independence element in its composition.

### 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 five Executive Directors and four Non-executive Directors. All of the four Non-executive Directors are Independent Non-executive Directors who 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 Listing Rules.

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

The Company has established a Nomination Committee on 9 June 2006 with written terms of reference. The Nomination Committee consists of five members, comprising Mr. Hui Wing Mau and the Company's four Independent Non-executive Directors. The chairman of the Nomination Committee is Mr. Hui Wing Mau.

The primary functions of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

Each of the Directors has entered into a service contract with the Company for a specific term. However, such term is subject to his/her re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Articles of Association of the Company (the "Articles"). The Articles of the Company state that each director shall retire from office by rotation at least once every three years after he was last elected or re-elected and directors holding offices as chairman and managing director are also subject to retirement by rotation. The Articles of the Company also provide that any Director appointed by the Board, either to fill a casual vacancy on the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

## **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.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All Directors confirmed they had complied with the required standard set out in the Model Code during the period from 9 June 2006 (date of adoption of the Model Code) to 31 December 2006.

## **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.

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 on 9 June 2006 with written terms of reference. The Remuneration Committee consists of five members, comprising Mr. Hui Wing Mau and the Company's four Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. Hui Wing Mau.

The primary functions of the Remuneration committee are to evaluate the performance and make recommendations on the remuneration package of the directors and senior management and evaluate, make recommendations on the Company's share option schemes, retirement scheme and the performance assessment system and bonus and commission policies.

### **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 applied 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 pages 54 and 55.

### **C.2 Internal Controls**

The Group has established an Internal Audit Department which plays an important role in the Group's internal control system. The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities and make recommendations to the relevant management for necessary actions. The results of the internal audit reviews are reported to the Executive Directors and Audit Committee periodically. The Directors have reviewed the effectiveness of the Group's internal control system covering financial, operational, compliance and risk management functions for the year 2006.

### C.3 Audit Committee

The Company has established an Audit Committee on 9 June 2006 with written terms of reference pursuant to the rules set out in Chapter 3 of the Listing Rules. The Audit Committee consists of four members, namely Ms. Kan Lai Kuen, Alice, Mr. Lu Hong Bing, Mr. Gu Yunchang and Mr. Lam Ching Kam. All of them are Independent Non-executive Directors. The chairman of the Audit Committee is Ms. Kan Lai Kuen, Alice.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors and provide advice and comments to the Directors.

Attendance of individual members at Audit Committee meetings during the period from 9 June 2006 (date of establishment of the Audit Committee) to 31 December 2006 are as follows:

<b>Directors</b>	<b>Number of attendance</b>
Kan Lai Kuen, Alice ( <i>Committee Chairman</i> )	1/1
Lu Hong Bing	1/1
Gu Yunchang	1/1
Lam Ching Kam	1/1

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. 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 auditors, Messrs. PricewaterhouseCoopers, in respect of the services rendered for the year ended 31 December 2006 is set out as follows:

<b>Services rendered</b>	<b>Fee paid/payable</b> HK\$'000
Audit service	3,000
Non-audit services:	
Review of interim financial information	1,600
Service provided in respect of issuance of senior notes	2,000
Tax consultancy	333
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	6,933

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

The consolidated annual results of the Group for the year ended 31 December 2006 have been reviewed by the Audit Committee.

### **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 management believes that effective communication with the investment community is essential. Since the listing of the Company in July 2006, the Executive Directors and Chief Financial Officer held regular briefings, attended investor forums and participated in roadshows with institutional investors and financial analysts in the PRC, Hong Kong and overseas countries to keep them abreast of the Company's business and development.

The annual general meeting provides a useful forum for the shareholders to exchange views with the Board. The Directors and Chief Financial Officer will attend the shareholder's meetings to answer the questions of shareholders. In addition, questions received from the general public and individual shareholders were answered promptly.

## **E.2 Voting by Poll**

The Articles 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 shareholder 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 on 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, or (v) any Director or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at the meeting. The Articles further provide that a demand by a person as proxy for a shareholder (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall be deemed to be the same as a demand by a shareholder.

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

The Board will continue to devote efforts to maintain good corporate governance practices of the Company in future with a view to continuously enhancing shareholder value as a whole.