

Commitment to Corporate Governance

Since its establishment, Guangzhou R&F Properties Co., Ltd (the "Company") along with its subsidiaries (the "Group") has been committed to enhancing its corporate governance practices and procedures. It complies strictly with PRC Company Laws and other laws and regulations of relevant jurisdictions. In particular, it has closely observed the rules and principles set out under the Code on Corporate Governance Practices as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group continues to improve its corporate governance practices, emphasizing the attainment and maintenance of a quality board, sound internal controls, and high transparency and accountability to shareholders. It believes that good corporate governance will bring long-term benefits to its shareholders and to the Group.

Compliance with Model Code

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") in Appendix 10 to the Listing Rules as the code of conduct for directors in their dealings in the Company's securities. The Company made specific enquires of each director, and each of them confirmed that he or she had complied with the Model Code during the financial year ended 31 December 2006.

Board of Directors The board of directors (the "Board") is charged with providing overall leadership and control in an effective and responsible manner with a view to maximizing financial performance and shareholder value.

The Board is fully responsible for the formulation of business policies and strategies in relation to the business operations of the Group, including dividend policy and risk management strategies. It is also responsible for the adoption of internal business and management control as well as the monitoring of the effectiveness of its control measures. Implementation and execution of Board policies and strategies and daily administrative matters are delegated to the executive directors and management of the Company. The Board found that the current arrangement has worked efficiently and satisfactorily.

The Board of the Company consists of nine members, including four executive directors: Mr. Li Sze Lim, Mr. Zhang Li, Mr. Zhou Yaonan and Mr. Lu Jing; two non-executive directors, Ms. Zhang Lin and Ms. Li Helen; and three independent non-executive directors, Mr. Dai Feng, Mr. Huang Kaiwen and Mr. Lai Ming, Joseph. Save as disclosed, there is no business or other relationship among members of the Board, and in particular none between the Chairman and the President of the Company. The structure, size and composition of the Board will be reviewed from time to time to ensure that the Board retains a mix of balanced skills and expertise to provide effective leadership of the Company.

All directors have entered into letters of appointment with the Company for a specific term of three years. All directors are subject to retirement from office by rotation and re-election at the annual general meeting once every three years in accordance with the articles of association of the Company ("Articles of Association").

The Company has not established a nomination committee. The Board is collectively responsible for the appointing of new directors either to fill casual vacancies or as additional Board members. During the 2006 financial year, all executive directors, namely, Mr. Li Sze Lim, Mr. Zhang Li, Mr. Zhou Yaonan and Mr. Lu Jing, were retired and offered themselves for re-election at the 2005 annual general meeting. They were all re-elected for a term of three years.

All directors, including non-executive directors and independent non-executive directors have offered sufficient time and effort to serve the business affairs of the Company. All non-executive and independent non-executive directors possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional advice. The Board believes that the ratio between executive directors and non-executive directors is reasonable and adequate to provide sufficient checks and balances to safeguard the interests of shareholders and the Group. The Board also believes that the participation of non-executive directors and independent non-executive directors provides independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all shareholders are considered and safeguarded.

All directors of the Company have access to timely information in relation to the Group's business and are able to make further enquires when necessary. They also have unrestricted access to the advice and services of the company secretary, who is responsible for providing directors with board papers and related materials. The Board has also agreed that directors may seek independent professional advice on issues related to the Group's business at the Company's expense.

The Company continuously updates all directors on its latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance practices.

The Company has arranged appropriate insurance coverage on directors' and officers' liabilities in respect of any legal actions taken against directors and senior management arising out of corporate activities.

Independence of Independent Non-executive Directors

Pursuant to the requirement of Rule 3.13 of the Listing Rules, the Company has appointed three independent non-executive directors, one of whom has appropriate professional qualifications in accounting and financial management. All independent non-executive directors have confirmed their independence of the Company.

Chairman and Chief Executive Officer

Mr. Li Sze Lim is the Chairman of the Board. He is responsible for ensuring that directors receive in a timely manner adequate information which is complete and reliable and that all directors are properly briefed on issues arising at Board meetings. He will also ensure that the Board works effectively; that all key issues are discussed within the Board in a timely manner; and that good corporate governance systems and communication channels with shareholders are established.

Mr. Zhang Li, the Co-chairman, is the Chief Executive Officer of the Company. He is responsible for the execution of business policies, strategies, objectives and plans as adopted by the Board. The role of the Chief Executive Officer is separate from that of the Chairman.

Board Meeting As required under the Articles of Association, the Board held four meetings during the year under review, and the attendance records of the directors are set out below:

Directors	Meetings Attended/Total
Executive Directors	
Li Sze Lim	4/4
Zhang Li	4/4
Zhou Yaonan	4/4
Lu Jing	4/4
Non-executive Directors	
Zhang Lin	4/4
Li Helen	4/4
Independent non-executive Directors	
Huang Kaiwen	4/4
Dai Feng	3/4
Lai Ming, Joseph	4/4

During these meetings, directors discussed and formulated business policies and strategies, corporate governance and financial and internal control systems. They reviewed the interim and final business results and other relevant important matters. All directors are urged to participate in these Board meetings in person. For those directors who are not able to attend these meetings in person, participation through electronic media is available.

According to the Articles of Association, the notice of Board meetings will be given to all directors at least 10 days prior to the date of a meeting. All directors are given the opportunity to include in the agenda any matter they would like discussed.

The company secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations in relation to the meeting are followed. He also prepares detailed minutes of each meeting. After the meeting, the draft minutes are circulated to all directors for comment as soon as practicable. All Board members are given a copy of the final approved minutes.

Should a matter being considered involve a potential conflict of interest for a director, the director involved in the transaction will be abstained from voting. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict issues. Board committees, including the audit committee and the remuneration committee, all follow the applicable principles, practices and procedures used in the Board meetings.

Supervisory Committee The supervisory committee of the Company consists of three members, including two supervisors, as representatives of shareholders, Mr. Zheng Ercheng and Ms. Liang Yingmei, and a representative of employees, Mr. Feng Xiangyang. Each of them has already performed his or her supervising duties in respect of the operation of the Company.

Remuneration of Auditors

PricewaterhouseCoopers is the Company's external auditors. In order to maintain its independence, the firm has not been appointed during the year to

perform other work that may cause a direct conflict in relation to its role as auditors of the Company.

The audit committee has recommended to the Board of the Company, and the Board has accordingly assented, to propose the reappointment of PricewaterhouseCoopers as the external auditors of the Group, pending approval by shareholders at the forthcoming 2006 annual general meeting, until the date of the next annual general meeting. During the year, the total remuneration in respect of audit services was RMB3.18 million.

Audit Committee and Accountability

In compliance with rule 3.21 of the Listing Rules, an audit committee was established on 27 June 2005 with terms of reference in accordance with Appendix 14 to the Listing Rules. The committee reports to the Board and has held regular meetings to review and make recommendation to improve the Group's financial reporting process and internal controls. It comprises three non-executive directors: a non-executive director, Ms. Li Helen and two independent non-executive directors, Mr. Dai Feng and Mr. Lai Ming, Joseph. Mr. Lai Ming, Joseph, who has appropriate professional accounting qualifications and financial management expertise, was appointed as the chairman of the committee.

The Board has the responsibility to present a clear and balanced assessment in respect of the performance, results and prospects of the Group. It is also responsible for preparing financial statements of accounts that give a true and fair view. The audit committee is delegated by the Board to assess matters related to the financial statements of accounts and to provide recommendations and advice, including but not limited to the following:

1. Relationship with external auditors of the Group

To be responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors; to consider the remuneration and terms of engagement of the external auditors; to review and assess the independence of the external auditors; to discuss with the external auditors the scope of audit and reporting obligations prior to commencement of the audit; to discuss with external auditors any issues relating to the audit, if necessary, in the absence of management; and to develop and implement policies as to the engagement of external auditors for other non-audit services.

2. Review of internal audit and control programme

The Group has its internal audit and control functions embedded within various operating departments or special purpose subsidiary companies. The audit committee is also responsible for the review of internal control procedures and reports as provided by these departments and to ensure that internal control measures are adequately resourced and effectively operated.

3. Review of financial information of the Group

To review and monitor the integrity of financial statements of accounts, annual reports, interim reports and auditors' reports, based on relevant existing and current accounting standards, and in compliance with the Listing Rules and other legal requirements in relation to financial reporting.

4. Oversight of the Company's internal control procedures and risk management

To ensure that management of the Company has established effective internal control procedures and risk management systems; to discuss with management the effectiveness of the internal control procedures and risk management systems; and to review the management letter from external auditors and follow up on any material queries raised by external auditors as contained in the management letter in respect of the financial and accounting matters of the Group as well as responses from the management.

5. Other duties as authorized by the Board to the audit committee in relation to financial and internal control matters

The audit committee held three meetings during the year with full minutes kept by the company secretary. Following Board practice, minutes of the meetings are circulated to all members for comment, approval and record as soon as practicable after the meeting. The audit committee reported that there was no material uncertainty that cast doubt on the Company's going concern ability. There was no disagreement between the Board and the audit committee in respect of the selection and appointment of the external auditors. The audit committee has reviewed the accounting policies and practices adopted by the Company, the internal control reports of various departments and the annual report for the financial year ended 31 December 2006.

The attendance records of individual committee members are set out as below:

Committee members	Meetings Attended/Total
Lai Ming, Joseph	3/3
Dai Feng	3/3
Li Helen	3/3

Internal Control The Board has the responsibility to maintain an effective internal control system in order to protect the Group's assets and its shareholders' interests. The Board has met and conducted reviews to ensure the effectiveness of the Company's internal controls and risk management systems.

The internal control system of the Group includes a well-established corporate structure and an organization with clearly defined lines of responsibility and authority. Each department is responsible for its daily operations and is required to implement and monitor the strategies and policies adopted by the Board. They are to effectively employ the resources of the Company so as to avoid misappropriation of resources or damages made to the Company's assets, and to prevent against errors and fraud.

The Board assesses the effectiveness of the internal control systems and procedures based on information derived from discussions with the management of the Company and its external auditors, as well as from reviews conducted by the audit committee. The Board believes that the existing internal control system is adequate and effective.

The Board has adopted a detailed operational manual which has a clearly defined scope of activities, responsibilities and authorities for each department and its management staff within the Group. The Group has a defined goal for each department to accomplish these goals, which were discussed in Board meetings and passed on to management through the executive directors. These targets will be implemented and closely monitored by the executive directors who will review the operational and financial results from time to time, and will take any necessary actions toward achieving improvement of the Company's business activities.

The Company's internal controls and audit functions are embedded within its various operational departments. These internal control and audit functions are reviewed and assessed on an on-going basis by executive directors and will be further reviewed and assessed at least once each year by the audit committee.

Remuneration Committee

The remuneration committee was established on 27 June 2005 with written terms of reference. The committee comprises three directors, an executive director, Mr. Li Sze Lim, and two independent non-executive directors, Mr. Dai Feng and Mr. Huang Kaiwen. Mr. Li Sze Lim was appointed as the chairman of the committee.

The remuneration committee is responsible for formulating and recommending policy to the Board and determining the remuneration packages for executive directors and members of senior management, as well as bonus structures, provident funds and other remuneration related issues. The remuneration committee presents its recommendations to the Board for final decision.

During the year, the remuneration committee held two meetings, with full minutes kept by the company secretary. The remuneration committee has reviewed the remuneration policies, the terms of service contracts and the performance of executive directors and senior managers of the Company. The remuneration committee reported that the compensation payable to each director and senior manager is in accordance with contractual terms and that such compensation is fair and not excessive for the Company.

The attendance records of individual committee members are set out as below:

Committee members	Meetings Attended/Total
Li Sze Lim	2/2
Dai Feng	2/2
Huang Kaiwen	2/2

Details of emoluments of the directors for the year are set out in notes to the financial statement on page 131.

Emolument Policy The Company's emolument policy is to ensure that the remuneration offered to employees, including executive directors and senior management, is based on skill, knowledge, responsibility and level of involvement in the Company's affairs. The remuneration of executive directors is also linked to the business performance and profitability of the Company in the context of market conditions. Individual directors and senior management will not be involved in deciding their own remuneration.

Disclosure of Information The Company intends to maintain an amicable relationship with its shareholders and investors and to enhance the transparency of its business operations. It has disseminated and published information in respect of its business operations to its investors through various channels and methods and in a most timely manner. In addition to the interim and annual reports, the Company has occasionally met with analysts and conducted press conferences. All enquiries or suggestions from shareholders, investors, media and the general public are handled by executive directors or appropriate management staff. The corporate website is another channel through which the company provides its most up-to-date information.

The Company has taken every precaution in handling price-sensitive information. During the period one month prior to the release of financial results, the directors and senior management staff of the Company are prohibited from dealing in the Company's shares. Interviews with financial analysts and media are restricted.

Shareholder Relations The Company has adopted a policy of disclosing information to its shareholders in a timely manner. The annual general meeting also serves as a communication channel between directors and shareholders. The chairman personally chairs the annual general meeting to ensure shareholders' views are communicated to the Board. During the annual general meeting, the chairman of the Board and its committees will all be present to answer any queries that shareholders may have. The chairman will also propose separate resolutions for each issue to be considered at the annual general meeting.

The annual general meeting proceedings are reviewed periodically to ensure that shareholders' rights are preserved. Notice of the annual general meeting is sent to all shareholders at least 45 days prior to the date of the meeting, setting out details of each proposed resolution, voting procedures and other relevant information. At the beginning of the meeting, the chairman will explain the procedures for demanding a poll.