

Corporate Governance Report

COMMITMENT TO CORPORATE GOVERNANCE

Country Garden Holdings Company Limited (the “Company”) together with its subsidiaries (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. The board of directors (the “Board”) and management are committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. The Board believes that good corporate governance will bring long-term benefits to its shareholders and to the Group.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with the Code on Corporate Governance (the “Code”) as set out in the Appendix 14 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the period from 20 April 2007, the date on which trading of the shares of the Company commenced on the Stock Exchange, up to 31 December 2007, except for the deviations from the code provisions (“Code Provisions”) A.1.7, A.2.1 and D.1.2 only. The following summarizes the requirements under the relevant Code Provisions, the reasons for such deviations and the steps the Company has taken in order to be able to comply with the relevant Code Provisions.

(1) Code Provision A.1.7

- There should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer’s expense. The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the issuer.

(2) Code Provision A.2.1

- The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

(3) Code Provision D.1.2

- An issuer should formalise the functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.

The Company has adopted the Code on 20 March 2007. Mr. Yeung Kwok Keung and Mr. Cui Jianbo have been holding the positions of the Chairman of the Board and the President, who are two clearly separate positions, and the functions of the President are similar to those normally taken by the chief executive officer of other listed companies, respectively since 4 December 2006. The Company has not complied with the relevant Code Provisions during the period from 20 April 2007, the date on which trading of the shares of the Company commenced on the Stock Exchange, up to 2 August 2007 as the Company requires more time to consider and prepare proper procedures and guidelines which comply with the relevant Code Provisions and are applicable to the Company. On 3 August 2007, the Directors of the Company passed a written resolution to approve and adopt a memorandum setting out in writing the procedure to enable directors to seek independent professional advice in appropriate circumstances at the Company’s expenses, the division of responsibilities between the Chairman and the President and the functions of the Board and management. Therefore, the Company has since 3 August 2007 rectified all deviations from and complied fully with the Code.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules as the code for dealing in securities of the Company by the Directors. Specific confirmation has been obtained from all Directors for compliance with the required standard set out in the Model Code during the period from 20 April 2007, the date on which trading of the shares of the Company commenced on the Stock Exchange, up to 31 December 2007. No incidence of material non-compliance has been noted by the Company to date in 2007. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code during the period from 20 April 2007, the date on which trading of the shares of the Company commenced on the Stock Exchange, up to 31 December 2007.

THE BOARD

The Board currently consists of nine executive Directors, namely, Mr. Yeung Kwok Keung, Mr. Cui Jianbo, Ms. Yang Huiyan, Mr. Yang Erzhu, Mr. Su Rubo, Mr. Zhang Yaoyuan, Mr. Ou Xueming, Mr. Yang Zhicheng and Mr. Yang Yongchao; and three independent non-executive directors, namely, Mr. Lai Ming, Joseph, Mr. Shek Lai Him, Abraham and Mr. Tong Wui Tung, Ronald.

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Ms. Yang Huiyan is the daughter of Mr. Yeung Kwok Keung and Mr. Yang Zhicheng and Mr. Yang Yongchao are nephews of Mr. Yeung Kwok Keung. Save as disclosed above, during the year, none of other Directors has or maintained any financial, business, family or other material, relevant relationship with any of the other Directors.

Mr. Yeung Kwok Keung, being the Chairman, is responsible for the formulation of the development strategies, investment planning, overall project planning of the Group and ensuring that the Board is functionally properly, with good corporate governance practice and procedures, whilst Mr. Cui Jianbo, the President of the Company, is responsible for the management of daily operation and general administration of the Group. The roles of the Chairman and the President of the Company are segregated to reinforce independence, accountability and responsibility. Their respective responsibilities are clearly established and defined by the Board in writing.

Biographical details of the Directors and their relevant relationships are set out in the section headed "Biographical details of Directors and Senior Management" on page 44 to 46.

All of the independent non-executive Directors are appointed for a term of two years commencing from 1 January 2007, which are subject to retirement in accordance with the articles of association of the Company (the "Articles"). According to the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting at least once every three years. As such, no Directors have a term of appointment longer than three years.

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, including dividend policy and risk management strategies. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group.

The Company has not established a nomination committee. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and assessing the independence of the non-executive Directors. The structure, size and composition of the Board will be reviewed from time

to time to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the Group's business.

All the Directors are kept informed on a timely basis of major changes that may have affected the Group's business, including relevant rules and regulations and are able to make further enquiries when necessary. They also have unrestricted access to the advices and services of the company secretary and the compliance officer, who are responsible for providing the Directors with board papers and related materials. The Board has also agreed that the Directors may seek independent professional advice in performing their Directors' duties at the Company's expenses. No request was made by any Director for such independent professional advice during the year.

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. The insurance coverage is reviewed on an annual basis.

Independence of Independent Non-executive Directors

The independent non-executive Directors, who combine to offer diverse industry expertise, serve the important function of advising the management on strategy and ensuring the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The company secretary has received from each of the independent non-executive Directors a confirmation of his independence in accordance with Rule 3.13 of the Listing Rules and the Board considers all of the independent non-executive Directors is independent.

The Board has established two committees with specific responsibilities as described later in this report. Major matter that are specifically delegated by the Board to management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiative adopted by the Board, monitoring of operating budgets, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

MEETINGS

The Board held four meetings in 2007 to discuss the overall strategy as well as the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall group strategy, major acquisitions and

disposals, annual budgets, annual and interim results, approval of major capital transactions and other significant operational and financial matters.

The attendance of each of the Directors is set out below:

Directors	No. of meetings attended/ No. of meetings held
Executive Directors	
Mr. Yeung Kwok Keung <i>(Chairman)</i>	4/4
Mr. Cui Jianbo	4/4
Ms. Yang Huiyan	3/4
Mr. Yang Erzhu	4/4
Mr. Su Rubo	4/4
Mr. Zhang Yaoyuan	4/4
Mr. Ou Xueming	4/4
Mr. Yang Zhicheng	4/4
Mr. Yang Yongchao	4/4
Independent Non-executive Directors	
Mr. Lai Ming, Joseph	4/4
Mr. Shek Lai Him, Abraham SBS, JP	4/4
Mr. Tong Wui Tung, Ronald	4/4

During these meetings, the 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. For those Directors who are not able to attend these meetings in persons, participation by telephone conference is available.

The company secretary and the compliance officer assist the Chairman in preparing the agenda for the meeting. The company secretary also prepares detailed minutes of each meeting. After the meeting, the draft minutes are circulated to all the Directors for comment as soon as practicable.

The Board also recognizes the importance of the independent reporting of the corporate governance function. The compliance officer attends all the Board and committee meetings to advise on corporate governance matters covering risk management and relevant compliance issues relating to mergers and acquisitions, accounting and financial reporting.

AUDIT COMMITTEE

The Audit Committee was established on 5 December 2006 with terms of references in compliance with the Code set out

in Appendix 14 of the Listing Rules. The members of the Audit Committee are all of the independent non-executive Directors, namely Mr. Lai Ming, Joseph, Mr. Shek Lai Him, Abraham and Mr. Tong Wui Tung, Ronald. Mr. Lai Ming, Joseph who has appropriate professional accounting qualifications and financial management expertise as required under the Listing Rules, was appointed as the chairman of the Audit Committee.

The Audit Committee is to serve as a focal point for communication between other Directors and the external auditor of the Company as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other financial and accounting matters as the Board determines from time to time. It assists the Board in providing an independent review of the effectiveness of the financial reporting process, internal controls and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

The Audit Committee met four times in 2007 to review the Group's significant internal controls and financial matters as set out in the Audit Committee's term of reference with senior management and external auditors of the Company. The committee's review covers the audit plans and findings of external auditors, external auditor's independence, the Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual financial statements for the Board's approval). Attendance of the members is set out below:

Members	No. of meetings attended/No. of meetings held
Mr. Lai Ming, Joseph <i>(Chairman)</i>	4/4
Mr. Shek Lai Him, Abraham, SBS, JP	4/4
Mr. Tong Wui Tung, Ronald	4/4

External Auditor's Independence

To enhance independent reporting by external auditor, part of the Audit Committee meetings were attended only by independent non-executive Directors and external auditors. The Audit Committee is satisfied with the findings of their review of the audit fee, process and effectiveness, independence and objectivity of PricewaterhouseCoopers ("PwC"), and the Audit Committee has recommended to the Board the re-appointment of PwC in 2008 as the Company's external auditor at the forthcoming Annual General Meeting.

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REMUNERATION COMMITTEE

The Remuneration Committee was formed on 5 December 2006 with terms of reference in compliance with the Code as set out in the Appendix 14 to the Listing Rules and is being chaired by Mr. Yeung Kwok Keung. The Remuneration Committee consists of five members, of whom two are executive directors being Mr. Yeung Kwok Keung and Mr. Cui Jianbo, and three are independent non-executive Directors being Mr. Lai Ming, Joseph, Mr. Shek Lai Him, Abraham and Mr. Tong Wui Tung, Ronald.

The primary responsibility is to review and formulate policies in respect of remuneration structure for all Directors and senior management of the Company and make recommendations to the Board for its consideration.

During the year, the Remuneration Committee held two meetings, with full minutes kept by the company secretary. It reviews the remuneration package of the vice presidents of the Company and approves the appointment of Mr. Chen Hua as vice president of the Company and his remuneration package. Attendance of the members is set out below:

Members	No. of meetings attended/ No. of meetings held
Mr. Yeung Kwok Keung (Chairman)	2/2
Mr. Cui Jianbo	2/2
Mr. Lai Ming, Joseph	2/2
Mr. Shek Lai Him, Abraham, SBS, JP	2/2
Mr. Tong Wui Tung, Ronald	2/2

INTERNAL CONTROLS

The Board is ultimately responsible for the internal control system of the Group and, through Audit Committee, has reviewed the effectiveness of the system. The Board has delegated to the senior management the implementation of such systems of internal controls as well as the relevant financial and operational and compliance controls and risk management procedures.

During the year under review, the Board has reviewed the operational and financial reports (interim and quarterly financial statements) provided by the senior management. Besides, the Audit Committee has performed review of the financial budgets and internal controls as provided by the senior management. The management has employed the service of Protiviti, an external consultancy firm to review various aspects of internal control.

The Board assesses and reviewed the effectiveness of the internal control systems and procedures based on information derived from discussions with the senior management and its external auditor. The Audit Committee has reviewed the comments of external auditors provided at the Audit Committee meetings.

Based on the assessment made by the senior management for the year ended 31 December 2007, the Audit Committee is satisfied that there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

AUDITOR'S REMUNERATION

For the year ended 31 December 2007, the fees paid/payable to the auditor of the Company (inclusive of business tax) in respect of the audit services and other services provided amounted to approximately RMB7,894,000 and RMB2,610,000 respectively.

DIRECTORS' RESPONSIBILITY ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2007, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 61 to 62.

GOING CONCERN

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.