

We believe it is our duty to the communities in which we invest and sound business sense to integrate good corporate social responsibilities and corporate governance principles into our business management philosophy to ensure long-term sustainable growth.

# Managing for Sustainable Growth

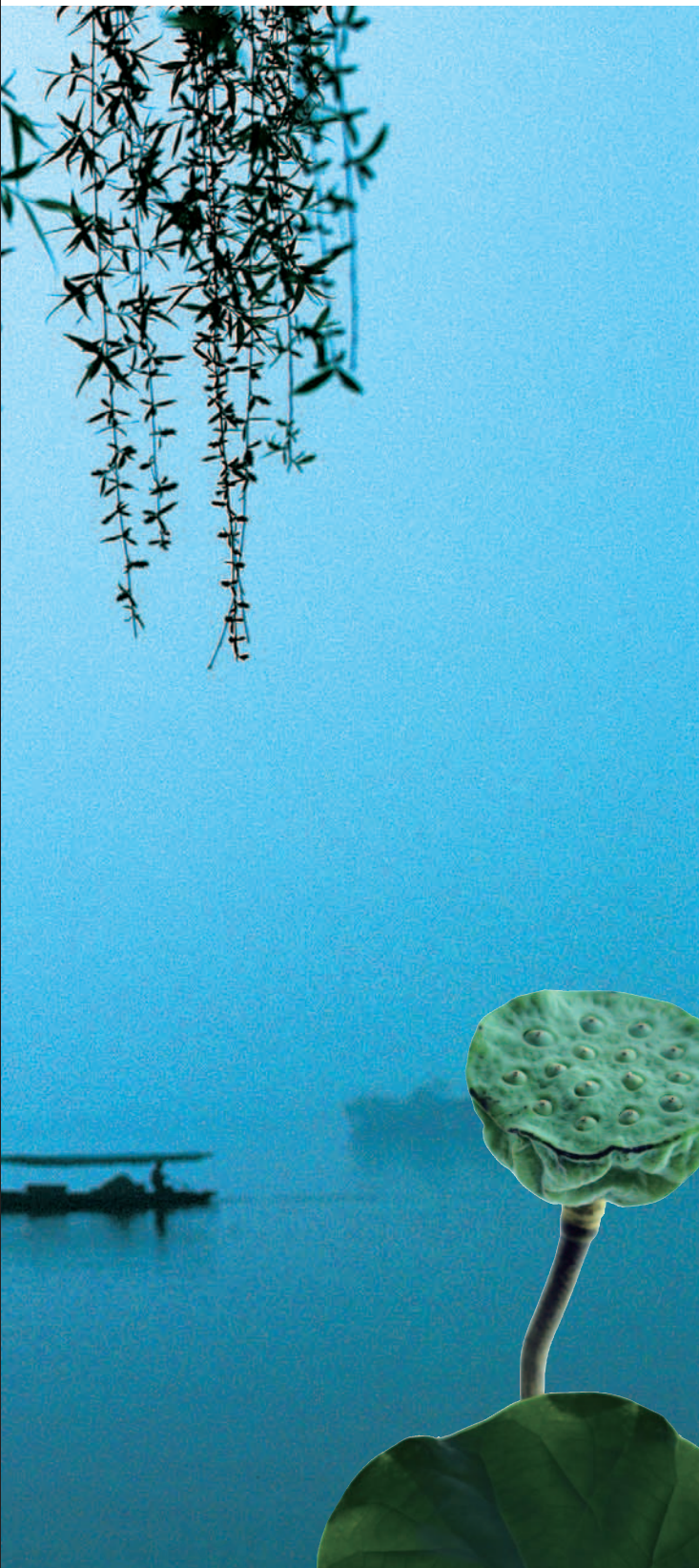


West Lake in Hangzhou







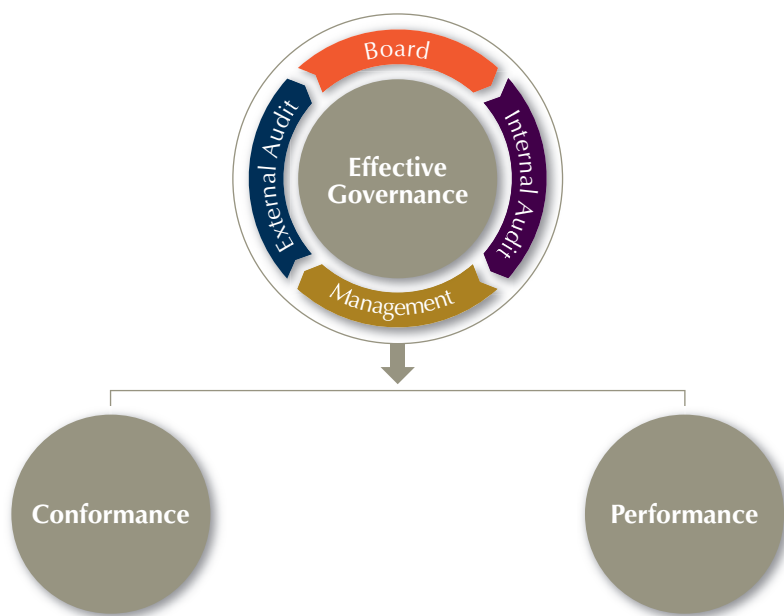


# CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) of the Company is pleased to present the Corporate Governance Report for the year ended 31 December 2007.

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, integrity, accountability, sustainable development and independence. The Board believes that good corporate governance is essential to the success of the Company, the enhancement of shareholders’ value, and stakeholders’ confidence in the Company. In reflection of this, Shui On Land was proud to receive the Citi Award for Corporate Governance Excellence at Hong Kong Corporate Governance Excellence Award 2007 organised by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University.

## Shui On Land Corporate Governance Framework



*“The Company pursues a right balance between conformance and performance in its corporate governance.”*

### Corporate Governance Practices of the Company

The Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation, which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) contained 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”) during the year ended 31 December 2007, except for certain deviations as specified with considered reasons as explained below.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and

growth of its business and to reviewing its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

### Board of Directors

The Board is responsible for the leadership and control of the Company and oversees the Company’s businesses, strategic decisions and performances. The Board has reserved for its decision or consideration on matters concerning mainly the Company’s overall strategy, annual operating budget, annual and interim results, recommendations on Directors’ appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the daily operations and administration to the management. The respective functions of the Board and management of the Company have been formalised and



Mr. William T. ADDISON (second right), Managing Director and Chief Financial Officer, receiving the Hong Kong Corporate Governance Excellence Award 2007 on behalf of the Company

set out in writing in a document that was approved by the Board in March 2007. The Board will review the same once a year. In addition, the Board has also established board committees and has delegated to these board committees various responsibilities set out in their terms of reference respectively.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. In addition, a written procedure has been established in March 2007 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

The Board has the full support of the Chief Executive Officer, Managing Directors and the senior management in discharging its responsibilities.

### Board Composition

During the year ended 31 December 2007, the majority of the members of the Board of Directors of the Company were Independent Non-executive Directors (INEDs). The Board is currently made up of nine members in total, with two Executive Directors, one Non-executive Director and six INEDs.

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision-making.

The current Board of the Company comprises the following Directors:

#### Executive Directors:

Mr. Vincent H. S. LO  
(Chairman of the Board, Chief Executive Officer and member of Remuneration Committee)

Mr. William T. ADDISON  
(Managing Director and Chief Financial Officer)

#### Non-executive Director:

The Honourable LEUNG Chun Ying

#### Independent Non-executive Directors (INEDs):

Sir John R. H. BOND

Dr. Edgar W. K. CHENG  
(member of Audit Committee)

Dr. William K. L. FUNG  
(Chairman of Remuneration Committee)

Professor Gary C. BIDDLE  
(Chairman of Audit Committee and member of Remuneration Committee)

Dr. Roger L. McCARTHY  
(member of Audit Committee)

Mr. David J. SHAW

*The brief biographical details of the Directors are set out in the "Biographies of Directors and Senior Management" section on pages 86 to 91.*

Currently, the Company has six INEDs representing more than half of the Board. Three of the six INEDs have the appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules. None of the members of the Board is related to one another.

All Directors, including the Non-executive Director and INEDs, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functions. INEDs are invited to serve on the Audit and Remuneration Committees of the Company. Their active participation in the Board and committee meetings brings independent judgment on issues relating to the Company's strategy, performance and management process, taking into account the interests of all shareholders.

### **Appointment, Re-election and Removal of Directors**

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. 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 INEDs.

In March 2007, the Board established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Chairman of the Board shall, based on those criteria as set out in the Nomination Procedure such as appropriate experience, personal skills and time commitment etc, identify and recommend the proposed candidate to the Board for approval of an appointment.

Each of the Non-executive Directors of the Company is appointed for a specific term of three years and shall be subject to retirement by rotation once every three years.

Code provision A.4.2 of the CG Code stipulates that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first annual general meeting after their appointment and that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to Article 97(3) of the Articles of Association of the Company then in effect before 8 June 2007, any Director appointed to fill a casual vacancy should hold office only until the next following annual general meeting and would then be eligible for re-election. To fully comply with the code provision A.4.2, a relevant amendment to the Articles of Association of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 8 June 2007.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

### **Training, Induction and Continuing Development for Directors**

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continually updated with legal and regulatory developments, as well as business and market changes, to facilitate the discharge of their responsibilities.

### **Board and Board Committees Meetings**

#### **Number of Meetings and Directors' Attendance**

The Company held four full board meetings in the year 2007 and has already set a schedule for its regular board meetings and committee meetings in the year 2008 in order to comply with the CG Code.



The attendance records of each Director at the board meeting are set out below:

| Name of Directors   | Attendance/<br>Number of<br>Meetings |
|---|--------------------------------------|
| Mr. Vincent H. S. LO (Chairman)                             | 4/4                                  |
| Mr. Wilfred Y. W. WONG<br>[Resigned with effect 1 May 2007] | 1/2                                  |
| Mr. William T. ADDISON                                      | 4/4                                  |
| Sir John R. H. BOND   | 2/4                                  |
| The Honourable LEUNG Chun Ying                              | 2/4                                  |
| Dr. Edgar W. K. CHENG                                       | 4/4                                  |
| Dr. William K. L. FUNG                                      | 4/4                                  |
| Professor Gary C. BIDDLE                                    | 4/4                                  |
| Dr. Roger L. McCARTHY                                       | 4/4                                  |
| Mr. David J. SHAW   | 4/4                                  |

**Practice and Conduct of Meetings**

All Directors have been given an opportunity to include matters in the agenda for regular board meetings. Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Board and committee meetings are scheduled at least one year in advance to facilitate maximum attendance of Directors.

Notices of regular board meetings are served to all Directors at least 14 days before the meetings. For other board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management attends all regular board meetings and when necessary, other board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors’ inspection.

According to current board practice, any material transaction that involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened board meeting. The interested Directors shall abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

**Chairman and Chief Executive Officer**

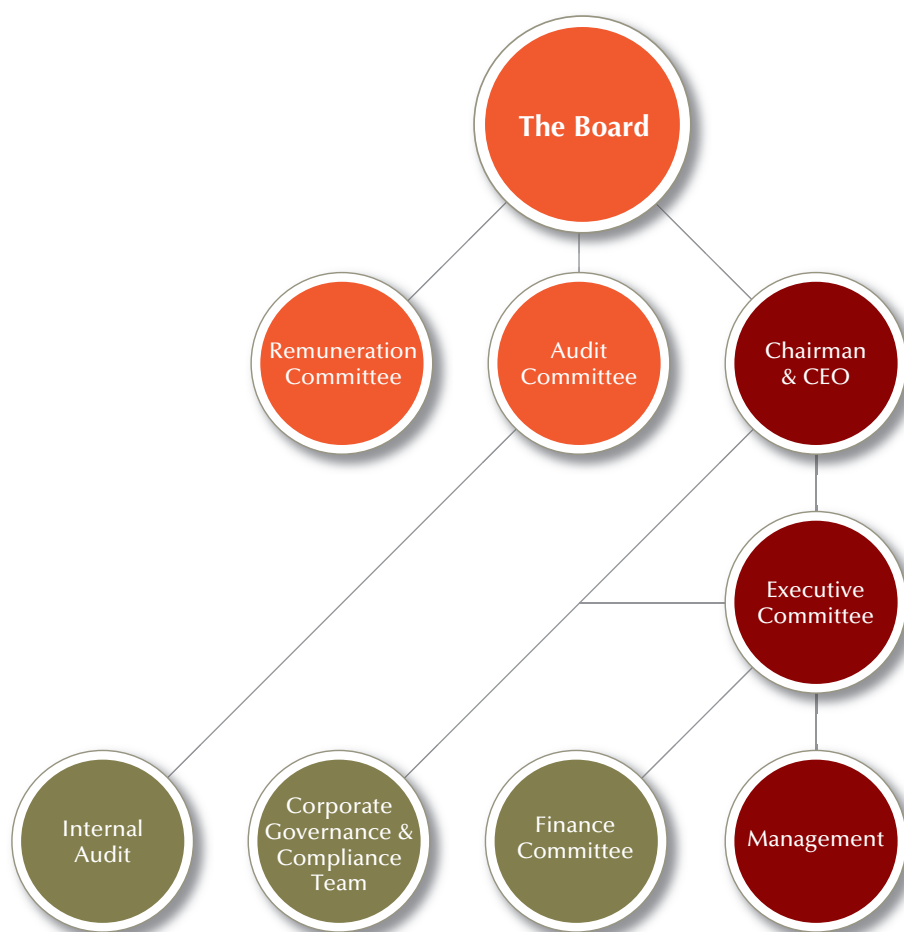
Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer (“CEO”) should be separate and should not be performed by the same individual.

Mr. Vincent H. S. LO, is the Chairman, CEO and the founder of the Company. The Board considers that vesting the roles of the Chairman and CEO in the same person is necessary because of the unique role and market importance of Mr. Vincent H. S. LO in the business development efforts of the Company. This vesting provides strong and consistent market leadership and is critical for efficient business planning and decisions of the Company in its current stage of development. Furthermore, all major decisions are made in consultation with members of the Board and appropriate board committees. There are six INEDs on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place.

With the support of the Company Secretary and the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Company will continue to review the effectiveness of the Company’s corporate governance structure and consider whether any changes, including the division of responsibilities and the roles of Chairman and CEO, are necessary in the future.

## Shui On Land Corporate Governance Organisation



### Model Code For Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as the code regarding securities transactions by the Directors and relevant employees.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2007.

To comply with the code provision A.5.4 of the CG Code, the Company established and adopted in March 2007 a Code for Securities Transactions by Relevant Employees,

on no less exacting terms than the Model Code, to regulate dealings in the shares of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its shares.

No incident of non-compliance of these written guidelines by the relevant employees was noted by the Company.

### Board Committees

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company’s affairs.



All board committees of the Company are established with defined written terms of reference, approved by the Board, which set out the Committees' major duties. The terms of reference of the board committees are posted on the Company's website and are available to shareholders upon request.

The majority of the members of each board committee are INEDs and the list of the chairman and members of each board committee is set out under "Corporate Information" on page 175.

The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

### Remuneration Committee

The Remuneration Committee consists of three members, namely Dr. William K. L. FUNG, Mr. Vincent H.S. LO and Professor Gary C. BIDDLE. Dr. William K.L. FUNG and Professor Gary C. BIDDLE are INEDs. The chairman of the Remuneration Committee is Dr. William K.L. FUNG.

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 to evaluate and make recommendations on employee benefit arrangements.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and CEO of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Executive Directors and the senior management and other related matters.

The Remuneration Committee met once during the year ended as of 31 December 2007 and the attendance records are set out below:

| Name of Committee Members         | Attendance/<br>Number of<br>Meeting(s) |
|-----------------------------------|--|
| Dr. William K. L. FUNG (Chairman) | 1/1                                    |
| Mr. Vincent H. S. LO              | 0/1                                    |
| Professor Gary C. BIDDLE          | 1/1                                    |

The Committee reviewed the share options scheme for staff, Directors and advisers as well as the 2006 bonus to Executive Directors, senior management and staff. It also reviewed the remuneration policy and resolved to revise the mid point of the salary ranges to align with that of market.

Details of the remuneration of the Directors for the year ended 31 December 2007 are set out in note 11 to the financial statements.

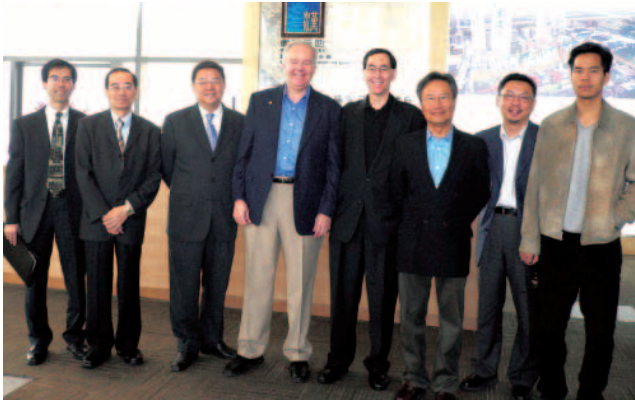
### Audit Committee

The Audit Committee consists of three members, namely Professor Gary C. BIDDLE, Dr. Edgar W. K. CHENG and Dr. Roger L. McCARTHY. All of them are INEDs. The chairman of the Audit Committee is Professor Gary C. BIDDLE.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor or external auditors before submission to the Board.
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial controls system, internal controls system and risk management system and associated procedures.

The Audit Committee has reviewed the Group's interim and annual results for the year ended 31 December 2007, including the accounting principles and practices adopted by the Company, in conjunction with the Company's external auditors.



Audit Committee members paying site visits to better understand the plans, risks and progress of the Company's projects

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

The Audit Committee has the same view with the Board regarding the selection, appointment, resignation or dismissal of external auditors.

Three meetings were held by the Audit Committee during the year ended 31 December 2007, and were attended by all the three members. The Audit Committee reviewed the risk assessment conducted by the internal auditors on the Audit Committee Meeting held on 14 September 2007 and made a summary report to the Board. In early November, the Audit Committee paid a visit to the Company's projects in Shanghai, Wuhan, and Chongqing to have a better understanding of the projects' plans, risks and progress, before reporting back to the Board. The Committee reviewed and commented on all draft announcements and circulars required under the Stock Exchange's rules before their formal issuance.

### Internal Audit

The Internal Audit Department was set up on 1 March 2007 and is headed by the Chief Internal Auditor. The Chief Internal Auditor reports to the Chairman and CEO, and has full and free access to the Audit Committee. The Internal Audit Charter was approved by the Chairman and CEO and the Audit Committee on 11 April 2007. The charter allows the internal auditors to have unrestricted access to all functions, records, property and personnel while maintaining appropriate confidentiality in performing their work.

The aims of the Internal Audit Department are to provide independent, objective assurance and advisory services designed to add value and improve the Company's business processes. The department helps the Company to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Internal Audit Department operates in a partnership relationship with management, preparing semi-annual audit plans based on a risk assessment methodology and upon agreement with the Company's Executive Committee (the "EXCOM") and the Audit Committee.

### Internal Control and Risk Assessment/Management

Internal audit and management conduct reviews of the effectiveness of the Company's system of internal controls, including those of its subsidiaries and major associates. The Audit Committee reviews the summary report of the internal auditors on the effectiveness of the Company's system of internal controls and reports to the Board on such summary results.

Since March 2007, the Internal Audit Department issued reports to CEO and relevant management covering various operational and financial processes and projects of the Company.

A risk assessment was conducted by the Internal Audit Department and presented to the Company's EXCOM and the Audit Committee for review in September 2007. A proposal for moving towards a continuous and integrated enterprise risk assessment and management framework was proposed to EXCOM and the Audit Committee, with agreement being reached to roll out the plan in 2008.

The Audit Committee has required management to present a report on risk assessment/management at every Audit Committee meeting.

### Code of Conduct and Business Ethics

The Company's Code of Conduct and Business Ethics (the "Code") was formulated on 19 December 2007. It stipulated how Directors and staff should deal with conflicts of interest situations, business activities and relationships, and financial dealings. The Code will also constitute a standard agreement term with the Company's agents, representatives, consultants, contractors, sub-contractors, business partners, resellers, sales and marketing agents, and suppliers. The Company received comments from the ICAC of Hong Kong during the drafting stage of the Code.

An Ethics Committee comprising senior executives was established by charter on 15 November 2007 to monitor, review and enforce the compliance of the Code. The Code was rolled out to all staff in January 2008.

### Anti-fraud Measures

An Irregularities Reporting System (a whistle-blowing system) was installed in May 2007 for reporting on violations of the Code of Conduct and Business Ethics and complaints on integrity related matters from staff, vendors, customer, and business partners. Telephone hotlines and special e-mail and mail boxes were set up to enable any complaints to reach the Chairman of the Audit Committee or the Secretary of the Ethics Committee.

An Incident Reporting Procedure was formulated in November 2007 to enable the systematic, timely and uniform reporting of incidents such as potential fraud to the Chief Financial Officer by personnel involved in internal control activities related to financial and/or automated information systems.

### Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The Board is responsible for overseeing the preparation of financial statements of the Company with a review to ensuring that such financial statements give a true and fair view of the state of affairs of the Company and that relevant statutory requirements and applicable accounting standards are complied with.

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 104 and 105.

### External Auditors and Auditors' Remuneration

The remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2007 is set out as follows:

| Services rendered for the Company | Fee paid/payable |
|-----------------------------------|------------------|
| Audit services:                   | HK\$6 million    |
| Non-audit services:               | HK\$7 million    |
| Total:                            | HK\$13 million   |

### Communications With Shareholders and Investors/Investor Relations

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Company's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which enables shareholders and investors to make the most informed investment decisions.



The Investor Relations team was set up on 1 June 2007. It seeks to create a pro-active platform to access feedback and provide adequate and fair disclosure amongst the financial and investment community. In this regard, various activities such as roadshows, conferences and regular email updates are used as a means to provide the latest development on the Company. This is in line with our policy of disclosing relevant information to shareholders in a timely manner.

The general meetings of the Company provide the best opportunity for exchange of views between the Board and the shareholders. The Chairman of the Board as well as Chairmen of the Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent board committee, are available to answer questions at the shareholders' meetings. The chairman of the independent board committee will also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

To promote effective communication, the Company maintains a website at [www.shuionland.com](http://www.shuionland.com) where up-to-date information on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. The Company takes the initiative to announce any important Memorandum of Understanding undertaken on a voluntarily and timely basis to increase transparency to shareholders. Upon the request of shareholders, future annual general meetings will be conducted in Cantonese with instantaneous English translation, instead of in English only.

To further ensure that all disclosures made by the Company to its shareholders are made in an accurate, complete and timely manner, the Company will establish a Disclosure Committee together with its relevant processes in 2008 for oversight of the disclosures made by the Company.

## Shareholder Rights

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Director.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be made by way of an announcement which is published in accordance with the Listing Rules as soon as possible.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's development. Enquiries from investors are dealt with in an informative and timely manner.

## Award on Corporate Governance

The Company was awarded the Citi Award for Corporate Governance Excellence at the Hong Kong Corporate Governance Excellence Award 2007 co-organised by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University.

## Corporate Governance Enhancement

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome to promote our transparency.