

corporate governance report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2005.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and deviations from the Code Provisions in respect of Code Provisions A1.1, A.4.1, A.4.2 and E.1.2, details of which will be explained below.

The Company periodically reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The Company wishes to highlight the importance of its Board of Directors ("Board") in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

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.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises nine members, consisting of six executive directors and three independent non-executive directors.

The Board of the Company comprises the following directors:

Executive directors:

Christopher W. Ho (*Chairman*)
Adrian C. C. Ma (*Group Managing Director/Chief Executive Officer*)
Christine L. S. Asprey
Michael A. B. Binney
C. F. Lam
Paul K. F. Law

Independent non-executive directors:

Herbert H. K. Tsoi
Johnny W. H. Lau
Martin I. Wright

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under “Directors’ Biographical Information” on page 27.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

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Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the non-executive directors is subject to retirement by rotation pursuant to the Company's bye-laws.

Deviations from Code Provisions A.4.1 & A.4.2 (& reasons):-

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Bye-laws deviate from Code Provision A.4.2 of the CG Code which provides that one-third of the directors for the time being (save for the President/Vice President), or if their number is not three nor a multiple of three, then the number nearest to one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

To conform with Code Provisions A.4.1 and A.4.2 of the CG Code, a special resolution will be proposed at the 2006 annual general meeting of the Company to amend the Company's Bye-laws so that all directors will be subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

Training for Directors

There was no director newly appointed during the year ended 31 December 2005. In case there is any newly appointed director, the Company has intention to provide him/her with an induction 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.

Arrangements will be made for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Deviation from Code Provision A.1.1 (& reason):-

Code Provision A.1.1 stipulates that the Company should hold at least four regular Board meetings a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held twice during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. As the Company did not announce its quarterly results hence did not hold quarterly meetings. In order to meet the Code Provision, the Company plans to hold at least four regular Board meetings in future.

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Number of Meetings and Directors' Attendance

The Board met twice during the year ended 31 December 2005 for approving the final results for the year ended 31 December 2004 and interim results for the period ended 30 June 2005. The attendance rate at each meeting was 89% and 67% respectively.

The individual attendance record of each director at the meetings of the Board, Nomination Committee, Remuneration Committee and Audit Committee during the year ended 31 December 2005 is set out below:

Name of Directors	Attendance/Number of Meetings Board
C. F. Lam	1/2
Christopher W. Ho	1/2
Paul K. F. Law	0/2
Adrian C. C. Ma	2/2
Christine L. S. Asprey	2/2
Herbert H. K. Tsoi	2/2
Michael A. B. Binney	2/2
Johnny W. H. Lau	2/2
Martin I. Wright	2/2

Name of Directors	Attendance/Number of Meetings Nomination Committee
Christopher W. Ho	1/1
Johnny W. H. Lau	1/1
Herbert H. K. Tsoi	1/1

Name of Directors	Attendance/Number of Meetings Remuneration Committee
Christopher W. Ho	1/1
Johnny W. H. Lau	1/1
Herbert H. K. Tsoi	1/1

Name of Directors	Attendance/Number of Meetings Audit Committee
Johnny W. H. Lau	2/2
Herbert H. K. Tsoi	2/2
Martin I. Wright	2/2

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Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

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 3 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 Chief Executive Officer, Chief Financial Officer, Qualified Accountant, and Company Secretary attend 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 to take and keep 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, which 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 Company's Bye-laws also contain provisions requiring directors to 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

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer are held by Mr Christopher W. Ho and Mr Adrian C. C. Ma respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and 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. 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 committees are independent non-executive directors and the list of the chairman and members of each Board committee as at 31 December 2005 is set out below:

Nomination Committee

Johnny W. H. Lau (*Chairman*)
Christopher W. Ho
Herbert H. K. Tsoi

Remuneration Committee

Herbert H. K. Tsoi (*Chairman*)
Christopher W. Ho
Johnny W. H. Lau

Audit Committee

Martin I. Wright (*Chairman*)
Herbert H. K. Tsoi
Johnny W. H. Lau

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 expenses.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee was established on 7 April 2005 and met once during the year ended 31 December 2005 to review and adopt the terms of reference. The Nomination Committee will review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

In accordance with the Company's Bye-laws, Mr Adrian C. C. Ma, Mr C. F. Lam and Mr Paul K. F. Law shall retire by rotation and being eligible, offer themselves for re-election at the 2006 annual general meeting.

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The Nomination Committee recommended the re-appointment of the directors standing for re-election at the 2006 annual general meeting of the Company.

The Company's circular dated 12 May 2006 contains detailed information of the directors standing for re-election.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

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 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/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee was established on 7 April 2005 and met once during the year ended 31 December 2005 to review and adopt their terms of reference. The Remuneration Committee will review the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (b) To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard and to discuss with the auditor the nature and the scope of the audit and reporting obligations before the audit commences;

- (c) To monitor the integrity of the financial statements of the Company as well as the annual report and accounts, half year report, quarterly report and to review significant financial reporting judgements contained in them including changes in accounting policies and practices, major judgemental areas, significant adjustments resulting from audit, going concern assumptions and qualifications, compliance with accounting standards and compliance with the Exchange Listing Rules and other legal requirement in relation to financial reporting;
- (d) To review and to discuss with the management the Company's financial controls, internal control and risk management systems and ensure that the management has discharged its duty to have an effective internal control system;
- (e) To ensure that there is co-ordination between the internal and external auditors and that the internal audit function is adequately resourced and has appropriate standing in the Company and to monitor and review the effectiveness of the internal audit function;
- (f) To review the Company's accounting policies;
- (g) To act as key representative body for overseeing the Company's relation with the external auditor.

The Audit Committee held two meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures, report of Internal Auditor on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

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

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2005 has been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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 2005.

The Company also has established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 31.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2005 amounted to HK\$6 million and HK\$80,000 respectively.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Company and of the Stock Exchange.

Deviation from Code Provision E.1.2 (& reason):-

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. The Chairman did not attend the annual general meeting held on 27 June 2005 as he had other business engagements.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Nomination Committee, 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.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

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

To promote effective communication, the Company also maintains a website at www.grandeholdings.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

On behalf of the Board

Christopher W. Ho
Chairman