

The board of directors (“Board”) of the Company is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 December 2006.

## **CORPORATE GOVERNANCE PRACTICES**

The Board of the Company believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

The Company has applied the principles 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”).

In the opinion of the directors, the Company has complied with all the code provisions set out in the CG Code throughout the year under review.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

## **THE BOARD**

### **RESPONSIBILITIES**

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. 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.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

### **BOARD COMPOSITION**

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:**

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

#### **Independent non-executive directors:**

Mr. Johnny W. H. Lau  
Mr. Herbert H. K. Tsoi  
Mr. 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 independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under “Brief Biographical Details in Respect of Directors” on page 25.

During the year ended 31 December 2006, 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.

All directors, including independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr. Christopher W. Ho, who provides leadership for the Board and is also responsible for chairing the meetings and managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. The Chief Executive Officer is Mr. Adrian C. C. Ma, who is responsible for running the Company's businesses and implementing the Group's strategic plans and business goals.

### **APPOINTMENT AND RE-ELECTION OF DIRECTORS**

Each of the executive directors of the Company is engaged on a service contract and each of the independent non-executive directors is subject to retirement by rotation pursuant to the Company's Bye-laws. The appointment may be terminated by not less than one month's written notice.

In accordance with the Company's Bye-laws which were amended by a special resolution at the annual general meeting held on 26 June 2006 for the purpose of compliance with the CG Code, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy shall submit himself / herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

### **NOMINATION COMMITTEE**

The Nomination Committee comprises three members, namely Mr. Johnny W. H. Lau (Chairman), Mr. Christopher W. Ho and Mr. Herbert H. K. Tsoi, the majority of them are independent non-executive directors.

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. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee met once during the year ended 31 December 2006 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

In accordance with the Company's Bye-laws, Mr. Christopher W. Ho, Mr. Herbert H. K. Tsoi and Mrs. Christine L. S. Asprey shall retire by rotation and being eligible, offer themselves for re-election at the 2007 annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the 2007 annual general meeting of the Company.

The Company's circular dated 17 April 2007 contains detailed information of the directors standing for re-election.

The Nomination Committee held one meeting during the year ended 31 December 2006 and the attendance records are set out below:

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>
Mr. Johnny W. H. Lau	1/1
Mr. Christopher W. Ho	1/1
Mr. Herbert H. K. Tsoi	1/1

## **INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS**

There was no director newly appointed during the year ended 31 December 2006. In case there is any newly appointed directors, he/she shall receive 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, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

## **BOARD MEETINGS**

### **Board 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 and the Company Secretary attend all regular Board meetings while the Chief Financial Officer and Qualified Accountant attend most of the 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 may involve 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 contains 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.

#### **Directors' Attendance Records**

During the year ended 31 December 2006, five regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the Board meetings during the year ended 31 December 2006 are set out below:

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>
Mr. Christopher W. Ho	5/5
Mr. C. F. Lam	2/5
Mr. Michael A. B. Binney	3/5
Mrs. Christine L. S. Asprey	5/5
Mr. Adrian C. C. Ma	5/5
Mr. Paul K. F. Law	0/5
Mr. Herbert H. K. Tsoi	5/5
Mr. Johnny W. H. Lau	4/5
Mr. Martin I. Wright	5/5

#### **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 2006.

The Company also has established written guidelines on no less exacting terms 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.

#### **DELEGATION BY THE BOARD**

The Board takes responsibility for 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 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 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 which are posted on the Company's website and are available to shareholders upon request.

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

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2006 are set out on page 53 in note 9 to the financial statements.

### REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely Mr. Herbert H. K. Tsoi (Chairman), Mr. Christopher W. Ho and Mr. Johnny W. H. Lau, the majority of them are independent non-executive directors.

The primary functions 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 has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and the senior management for the year under review.

The Remuneration Committee held one meeting during the year ended 31 December 2006 and the attendance records are set out below:

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

## ACCOUNTABILITY AND AUDIT

### DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

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 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.

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.

**INTERNAL CONTROLS**

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

**AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, namely Mr. Martin I. Wright (Chairman), Mr. Herbert H. K. Tsoi and Mr. Johnny W. H. Lau (all the independent non-executive directors possess 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:

- To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, 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 reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal controls system of the Group and reported to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2006, the financial reporting and compliance procedures, the 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 different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Audit Committee held five meetings during the year ended 31 December 2006 and the attendance records are set out below:

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>
Mr. Martin I. Wright	5/5
Mr. Herbert H. K. Tsoi	5/5
Mr. Johnny W. H. Lau	4/5
Mr. Adrian C. C. Ma*	1/5

\* Mr. Adrian C. C. Ma is not a member of the Audit Committee

**EXTERNAL AUDITORS AND AUDITORS' REMUNERATION**

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on page 29.

During the year under review, the remuneration paid to the Company's external auditors is set out below:

<b>Category of Services</b>	<b>Fee Paid/Payable</b> HK\$ Million
Audit services	10.7
Non-audit services	
– Consultation on bond issue	0.2
– Review on adoption of new HKFRS and tax provision	1.5
	<hr/>
Total	12.4
	<hr/>

**COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS**

The general meetings of the Company provide a forum for communication between the Board and the shareholders. 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.

To promote effective communication, the Company maintains a website at [www.grandeholdings.com](http://www.grandeholdings.com), where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company at its corporate office in Hong Kong for any inquiries.

**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 directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Company's Bye-laws. 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 published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange.

On behalf of the Board

**Christopher W Ho**  
*Chairman*

Hong Kong, 11 April 2007