

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board and senior management are committed to maintaining a high standard of corporate governance. It is believed that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency, sound internal control and meeting the expectations of all of the Group's various stakeholders.

The Board has adopted the code provisions set out in the Code of Corporate Governance Practices ("the Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), which has become effective on 1st January, 2005. Throughout the year ended 31st December, 2005, the Company has taken appropriate actions to comply with most of the Code Provisions, except for certain deviations in respect of the service terms and rotation of Directors. Further appropriate actions will be taken by the Company for complying with the Code.

CORPORATE GOVERNANCE STRUCTURE

The Board is charged with the duty to put in place a proper corporate governance structure of the Company. It is primarily responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Under the Board, there are currently 3 subcommittees, namely Audit Committee, Remuneration Committee and Nomination Committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

BOARD COMPOSITION AND BOARD PRACTICES

The Board comprises six directors, of whom three are executive directors namely, Mr. To Shu Fai (*Chairman*), Mr. Fung Wa Ko (*Deputy Chairman*) and Mr. Tang Tsz Man, Philip, and three are independent non-executive directors namely, Mr. Tse Yuen Ming, Mr. Leung Chi Hung and Mr. Leung, Tsz Fung David Ferreira. To the best knowledge of the Company, there is no financial, business, family or other material/ relevant relationship among the Directors, especially between the Chairman and the Chief Executive Officer of the Company. Such balanced Board composition, coupled with the strong independent element, is over and above the recommended practice under the Code for the Board to have at least one-third in number of its members comprising independent non-executive directors. The participation of independent non-executive directors in the Board brings independent judgement to ensure that the interests of all shareholders of the Company have been duly considered.

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors, of whom Mr. Leung Chi Hung is certified public accountant (Practising) in Hong Kong. He has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies.

The independent non-executive directors take an active role in Board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company. Thus, the Board considers the current board size as adequate for its present operations. Detail of backgrounds and qualifications of the chairman of the Company, the deputy chairman of the Company and the other Directors are set out in page 7 of this annual report.

The Board considers that all of the independent non-executive directors are independent and has received from each of them the annual confirmation of independence required by the Rule 3.13 of the Listing Rules.

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and overseeing management. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive directors who have attended at Board meetings.

The Board held regular Board meetings for four times and other Board meeting for eight times during the year ended 31st December, 2005. Details of the Directors' attendance are as follows:

Executive Directors

Mr. To Shu Fai (<i>Chairman</i>)	9/12
Mr. Fung Wa Ko (<i>Chief Executive Officer</i>)	12/12
Mr. Tang Tsz Man, Philip	2/12

Independent Non-executive Directors

Mr. Tse Yuen Ming	8/12
Mr. Leung Chi Hung	8/12
Mr. Leung, Tsz Fung David Ferreira (appointed on 12th July, 2005)	2/8
Mr. Kwok Shun On (resigned on 12th July, 2005)	1/4

CORPORATE GOVERNANCE REPORT

Apart from the regular Board meetings of the year, the Board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings at each Board meeting.

In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All Directors have unrestricted access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making and that board procedures are being followed. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meeting. The minutes are open for inspection at any reasonable time on reasonable notice by any Director.

According to the Code requirement, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. In order to comply with the Code, the Company has arranged liabilities insurance for all Directors.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

There is no service contract entered between each of the executive directors of the Company and the Company except for Mr. Fung Wa Ko. There was a service contract of Mr. Fung being appointed as a chief executive officer of the Company entered with the Company. The service contract of Mr. Fung was commenced from 13th October, 2003 and shall continue until terminated by either party giving the other not less than one month's notice.

The independent non-executive directors were not appointed for a specific term but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company. In view of the Code, the Company is taking steps to replace the independent non-executive directors' current appointment with specific term of appointments. The Company has proposed that all independent non-executive directors will retire in the coming annual general meeting and being eligible, offer themselves for re-election. Moreover, a service contract will be entered with each independent non-executive director for an initial period of one year and will continue thereafter unless and until terminated by either party given the other not less than three months' notice, if they are re-elected in the coming annual general meeting.

According to the provisions of the Bye-laws of the Company, any director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that

CORPORATE GOVERNANCE REPORT

notwithstanding anything herein, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

Amendments of the Bye-laws of the Company will be proposed at the forthcoming annual general meeting in order to comply with the Code.

Each newly appointed Director is reminded orally their duties and responsibilities as Directors of listed company under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company. Updates are provided to Directors when necessary to ensure Group conducts its businesses.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and Chief Executive Officer of the Company perform separate functions to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman has executive responsibilities and provides leadership to the Board in terms of establishing policies and business directions. The Chairman ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner.

Acting as the Chairman of the Board, Mr To Shu Fai leads the Board and ensures all Directors are properly briefed on issues to be discussed at board meetings. Acting as the Chief Executive Officer, Mr. Fung Wa Ko is responsible for the day-to-day operations of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the executive management team of each core business division, he ensures the smooth operations and development of the Group. He maintains a continuing dialogue with the Chairman and all Directors to keep them fully informed of all major business developments and issues.

COMMITTEES OF THE BOARD

Nomination Committee

The Nomination Committee was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. The terms of reference of the Nomination Committee include making recommendations for all appointment and re-appointment of Directors to the Board. It comprises three members, all of whom are independent non-executive directors. The members are:

Mr. Tse Yuen Ming (*Chairman*)
Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira

CORPORATE GOVERNANCE REPORT

The Nomination Committee has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals. It is also responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. In evaluating the Board's performance, the Nomination Committee considers a number of factors, including those set out in the Code.

In accordance with the Company's Bye-laws, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with Clause 87 of the Company's Bye-Laws, Mr. Tse Yuen Ming and Mr. Leung Chi Hung will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election. In accordance with Clause 86(2) of the Company's Bye-Laws, Mr. Leung, Tsz Fung David Ferreira will retire at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election. None of the independent non-executive Directors has served as Directors for more than five years.

Remuneration Committee

The Remuneration Committee was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. The Remuneration Committee consists of three independent non-executive directors and its members are:

Mr. Leung, Tsz Fung David Ferreira (*Chairman*)
Mr. Tse Yuen Ming
Mr. Leung Chi Hung

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all executive directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the independent non-executive directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account of the performance of the Group as well as those individual Directors and senior management.

Remuneration package for executive directors:

1. The remuneration for the executive directors comprises basic salary, annual bonus, other benefits and retirement benefits scheme.
2. Salaries are reviewed annually. Salary increases are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/sector trends.

CORPORATE GOVERNANCE REPORT

3. In addition to basic salary, executive directors and employees of the Company and its subsidiaries are eligible to receive a discretionary bonus taking into consideration factors such as market conditions as well as corporate and individual performances.
4. In order to attract, retain and motivate executives and key employees of the Group, the Company has adopted a share option scheme on 29th August, 2000 ("2000 Option Scheme"), which was terminated on 9th January, 2006, and a new share option scheme on 9th January, 2006 ("2006 Option Scheme") in order to comply with the amended Chapter 17 of the Listing Rules. Such incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their contributions to the Group.
5. Details of the amount of Directors' emoluments during the financial year ended 31st December, 2005 are set out in note 13 to the consolidated financial statements and details of the 2000 and 2006 Option Schemes are set out in the Directors' Report and note 31 to the consolidated financial statements.

The Remuneration Committee meets at least once a year. The first Remuneration Committee meeting was held on 16th August, 2005.

Audit Committee

The Audit Committee was established on 12th January, 2000 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with the requirements of the Code, the terms of reference of the Audit Committee were revised on 12th July, 2005 in terms substantially the same as the provisions set out in the Code. The Audit Committee comprises three members, all of whom are independent non-executive directors. The members are:

Mr. Leung Chi Hung (*Chairman*)
Mr. Leung, Tsz Fung David Ferreira
Mr. Tse Yuen Ming

The primary duties of the Audit Committee are to review, supervise and ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

For the year ended 31st December, 2005, the Audit Committee met five times during the year, in particular, to review and discuss (1) the accounting principles and practices adopted by the Group; (2) the auditing and financial reporting matters; (3) the re-appointment of external auditors; and (4) the establishment of internal control system with external auditors. The Audit Committee has also reviewed the interim results and the audited financial statements. Each member of the Audit Committee has unrestricted access to the Auditors and all senior management of the Group. *At least once annually, the Audit Committee meets the external auditors without the presence of the management.*

CORPORATE GOVERNANCE REPORT

The Audit Committee has recommended to the Board of Directors that Deloitte Touche Tohmatsu, *Certified Public Accountants*, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

Attendance Record at Board Committee Meetings

The following table shows the attendance of Directors at Board Committee meetings during the year:

Directors	Number of meetings attended/Number of meetings held		
	Nomination Committee	Remuneration Committee	Audit Committee
Independent Non-executive Directors			
Mr. Leung Chi Hung	0/0	1/1	5/5
Mr. Leung, Tsz Fung David Ferreira	0/0	1/1	1/2
Mr. Tse Yuen Ming	0/0	1/1	5/5
Mr. Kwok Shun On	N/A	N/A	2/3

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statement of the external auditors of the Company, Deloitte Touche Tohmatsu, *Certified Public Accountants* ("Deloitte Touche Tohmatsu"), about their reporting responsibilities on the financial statements of the Group is set out in the Report of Auditors on page 25.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

DIRECTORS' 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 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Having made specific enquiry with all Directors, each of whom has confirmed that he/she has complied with the required standard of dealings set out in the Model Code for the year ended 31st December, 2005 save for the below disclosed.

By a magistrate's summons dated 1st March, 2006, the Company was charged by the Securities and Futures Commission ("SFC") with the offence under the Securities and Futures Ordinance ("SFO") and such charge relates to a copy of the announcement dated 16th October, 2003 being provided by the Company to the Stock Exchange, which contained allegedly false or misleading information and the Company allegedly knowing or being reckless as to whether the information was false or misleading.

Save for the above, no members of the Group was engaged in any litigation or arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by any member of the Group.

Mr. To Shu Fai, the executive Director was engaged in the following litigations in relation to the SFO:

- (a) By a magistrate's summons dated 1st March, 2006, Mr. To Shu Fai was charged by the SFC with the offence under the SFO and such charge relates to Mr. To as a director of the Company on or about 16th October, 2003 allegedly consenting to or conniving at the alleged commission of such offence by the Company as mentioned above or the alleged commission of such offence by the Company as mentioned above being attributable to alleged recklessness of Mr. To Shu Fai;
- (b) By two magistrate's summons both dated 1st March, 2006, Mr. To Shu Fai was charged by the SFC with the offences under the SFO and such charges relate to the alleged non-compliance with the requirements for notification of cessation of interest in 200 million shares of the Company by Mr. To Shu Fai as Director to the Stock Exchange and the Company, respectively as laid down under the SFO; and
- (c) By four magistrate's summons all dated 1st March, 2006, Mr. To Shu Fai was charged by the SFC with the offences under the SFO and such charges relate to Mr. To as a director of Top Synergy and Vision Harvest Limited ("VHL") respectively allegedly consenting to or conniving at the alleged commission of such offences by Top Synergy and VHL, respectively in respect of the alleged non-compliance with the requirements for notification of cessation of interest in 200 million shares of the Company by Top Synergy to the Stock Exchange and the Company, respectively and also by VHL to the Stock Exchange and the Company respectively as laid down under the SFO or the alleged commission of such offences by Top Synergy and also by VHL, respectively being attributable to alleged recklessness of Mr. To Shu Fai.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND THEIR REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu for the year ended 31st December, 2005 and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statement for the year ended 31st December, 2005 has been audited by Deloitte Touche Tohmatsu.

The Audit Committee is responsible for considering the appointment of the external auditor and also reviews any non-audit functions performed by the external auditor for the Group. In particular, the Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest. The Audit Committee reviews each year a letter from the external auditors confirming their independence and objectivity and holds meetings with Deloitte Touche Tohmatsu to discuss the scope of their audit.

For the year ended 31st December, 2005, the external auditors of the Group provided the following services to the Group:

	2005	2004
	HK\$'000	HK\$'000
Audit services	720	650
Taxation advisory services	17	17
Review on 2005 interim results	170	140
Other advisory services	1,135	—
Total:	2,042	807

The Audit Committee is of the view that the auditors' independence was not affected by the provision of these non-audit related services during the year ended 31st December, 2005.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that an adequate system of internal controls is maintained within the Group, and for reviewing its effectiveness through the Audit Committee.

The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss and to manage, but not to eliminate, risks of failure in achieving the Group's objectives.

CORPORATE GOVERNANCE REPORT

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Board, through the Audit Committee, has conducted annually reviews of the effectiveness and the adequacy of the Group's system of internal control.

During the year under review, based on the evaluations made by the Audit Committee, the Board was satisfied that nothing has come to its attention to cause the Board to believe that the system of internal control is inadequate; and there is an ongoing process to identify, evaluate and manage significant risks faced by the Group.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company uses two-way communication channels to account to shareholders and investors for the performance of the Company. The Company values communication with shareholders and investors. Enquiries and suggestions from shareholders or investors are welcomed through the following channels to the Company Secretary:

- (i) By mail to the Company's head office at Unit No. 1906, 19/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong;
- (ii) By telephone at telephone number (852) 3107 8600;
- (iii) By fax at fax number (852) 2666 0803; or
- (iv) By email at irelations@daidohk.com.

The annual general meeting is the principal forum for formal dialogue with shareholders, where the Board is available to answer questions about specific resolutions being proposed at the meeting and also about the business of the Group. Extensive information about the Group's activities is provided in its annual reports and interim reports which are sent to shareholders and investors. The Company's announcements, press release and publication are circulated and are also available on the Stock Exchange website. The periodic presentation and conference calls with the institutional investors and analysts are made from time to time to release the Group's latest business development plan. In order to provide effective disclosure to shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.

In order to promote effective communication, the Company also maintains a website (www.daidohk.com) which includes past and latest information relating to the Group and its businesses.