

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Group believes that good corporate governance is crucial to safeguard for the interests of the stakeholders and investors of the Company and to enhance the development of the Group. The Board and senior management are committed to maintain a high standard and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

The Company has applied and complied the principles of the code provision under the Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st December, 2006, except for the deviation as stated in paragraph headed "Chairman and Chief Executive Officer". Following sustained development of the Company, the Board and senior management will continue to monitor the corporate governance practices of the Company to ensure that daily business activities and decision making processes are regulated in a proper and prudent manner.

## 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 sub-committees, 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.

## ENHANCEMENT ON CORPORATE GOVERNANCE OF THE COMPANY IN 2006

During the year under review, the Company have taken the following actions to improve the corporate governance practice:-

- appointment for a specific term with all independent non-executive directors;
- amendments of the Bye-Laws of the Company in order to comply with the CG Code; and
- appointment of the independent advisor to conduct a high-level risk assessment.

## BOARD OF DIRECTORS

The Board comprises five directors, of whom two are executive directors namely, Mr. Fung Wa Ko (*Chairman and Chief Executive Officer*) and Mr. Tang Tsz Man, Philip, and three are independent non-executive directors namely, Mr. Leung Chi Hung, Mr. Leung, Tsz Fung David Ferreira and Mr. Tse Yuen Ming.

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.

# Corporate Governance Report

Such balanced Board composition, coupled with the strong independent element, is over and above the recommended practice under the CG 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.

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 the 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. Each of Directors' respective biographical details is set out in page 9 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 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 thirteen times during the year ended 31st December, 2006. Details of the Directors' attendance are as follows:

## **Executive Directors**

Mr. Fung Wa Ko ( <i>Chairman and Chief Executive Officer</i> )	17/17
Mr. Tang Tsz Man, Philip	17/17
Mr. To Shu Fai (resigned on 9th August, 2006)	10/10

## **Independent Non-executive Directors**

Mr. Leung Chi Hung	17/17
Mr. Leung, Tsz Fung David Ferreira	16/17
Mr. Tse Yuen Ming	14/17

# 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. Notice of at least 14 days has been given to all Directors for all regular board meeting and all the Directors can include matter for discussion in the agenda whenever they consider appropriate and necessary. The Directors will receive details of agenda items for decision at least 3 days before the meeting and minutes of the meeting will be received by those Directors within reasonable time after the 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 CG Code requirement, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. In order to comply with the CG Code, the Company has arranged liabilities insurance for all Directors in 2006.

## **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.

According to the CG Code requirement, the non-executive directors should be appointed for specific term, subject to re-election. During the year under review, a service contract has been entered with each independent non-executive director for an initial period of one year and continues thereafter unless and until terminated by either party given the other not less than three months' notice but they are also subject to retirement by rotation and re-election under the Bye-Laws of the Company, so as to comply with code provision A.4.1.

A special resolution has been passed at the 2006 annual general meeting to amend the Bye-Laws of the Company, any director be appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation once every three years, so as to comply with code provision A.4.2.

# Corporate Governance Report

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

According to the CG Code requirement, the Chairman and Chief Executive Officer of the Company should 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.

The Chairman and Chief Executive Officer of the Company are currently performed by Mr. Fung Wa Ko. Taking to account Mr. Fung has strong expertise and excellent insight of the business development, corporate management and budget control, this structure will lead to more effective implementation of the overall strategy and ensure smooth operation of the Company. The Board believed that this structure will not impair the balance of power and authority between the Board and the management of the business of the Company as the structure of the Company has strong and independent non-executive directors element on the Board.

In order to maintain the high quality of the corporate governance and comply with the CG Code requirement, the Board and Nomination Committee will regularly review the need of appointment of different individuals to perform the roles of Chairman and Chief Executive Officer separately.

## 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 and is available on the Company's website. The Nomination Committee 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

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 CG Code.

# Corporate Governance Report

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 Bye-Law 87 of the Company's Bye-Laws, Mr. Fung Wa Ko and Mr. Tang Tsz Man Philip will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

None of the independent non-executive Directors has served as Directors for more than nine years.

The Nomination Committee meets at least once during the year. The Nomination Committee meeting was held on 18th April, 2006.

## **Remuneration Committee**

The Remuneration Committee was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005 and available on the Company's website.

The Remuneration Committee consists of three independent non-executive directors and its members are:

Mr. Leung, Tsz Fung David Ferreira (*Chairman*)

Mr. Leung Chi Hung

Mr. Tse Yuen Ming

The Remuneration Committee discharged 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.
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.

# Corporate Governance Report

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.

Details of the amount of Directors' emoluments during the financial year ended 31st December, 2006 are set out in note 11 to the consolidated financial statements and details of the 2006 Option Schemes are set out in the Directors' Report and note 27 to the consolidated financial statements.

The Remuneration Committee meets at least once during the year. The Remuneration Committee meeting was held on 18th April, 2006.

## **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 CG 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 CG Code and it is available on the Company's website. 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, 2006, the Audit Committee met four times during the year and had performed the following work:

- (1) reviewed the audited financial statements for the year ended 31st December, 2006 and the unaudited financial statements for the six months ended 30th June, 2006;
- (2) reviewed the accounting principles and practices adopted by the Group;
- (3) reviewed the auditing and financial reporting matters;
- (4) reviewed the re-appointment of external auditors;

# Corporate Governance Report

- (5) reviewed the services proposals of the external auditors regarding the internal control review;
- (6) reviewed the effectiveness of internal control system; and
- (7) reviewed the business development of the Company.

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.

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.

At the meeting held on 17th April, 2007, the Audit Committee reviewed this corporate governance report, the Directors' report and financial statements for the year ended 31st December, 2006 together with the annual results announcement, with a recommendation to the Board of Directors for approval.

## Attendance Record at Board Committee Meetings

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

	Number of meetings attended/ Number of meeting held		
	Nomination Committee	Remuneration Committee	Audit Committee
Mr. Leung Chi Hung	1/1	1/1	4/4
Mr. Leung, Tsz Fung David Ferreira	1/1	1/1	4/4
Mr. Tse Yuen Ming	1/1	1/1	3/4

## 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.

# Corporate Governance Report

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 Independent Auditor's Report 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 a set of code of conduct for regarding directors' securities transactions by directors, the terms of which are on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Company's Model Code"). Having made specific enquiry of all directors of the Company, all directors have confirmed that they had complied with the required standard set out in the Company's Model Code during the year under review.

To enhance the corporate governance of the Group as a whole, all relevant employees who likely to be in possession of unpublished price sensitive information in relation to the Group or securities of the Company are subject to full compliance with the Company's Model Code. No incident of non-compliance was noted by the Company during the year under review.

## **EXTERNAL AUDITORS AND THEIR REMUNERATION**

The Group's external auditors are Deloitte Touche Tohmatsu for the year ended 31st December, 2006 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, 2006 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 of the Group. In particular, the Audit 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.



# Corporate Governance Report

For the year ended 31st December, 2006, the external auditors of the Group provided the following services to the Group:

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Audit services	<b>670</b>	720
Taxation advisory services	<b>-</b>	17
Review on interim results	<b>170</b>	170
Other advisory services	<b>594</b>	1,135
Total:	<b>1,434</b>	2,042

The Audit Committee is of the view that the auditor's independence was not affected by the provision of these non-audit related services during the year ended 31st December, 2006.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsible for maintaining sound and effective internal control systems to safeguard the Company's assets and Shareholders' interest, as well as for reviewing its effectiveness of the internal control system through the Audit Committee.

The system of the internal control is designed to ensure that the financial and operational function, compliance control system, material control, asset management and risk management function are in place and functioning effectively to achieve business objective of the Group and prevent damage to the public image.

The Company and its subsidiaries have adopted a set of internal control procedures and policies for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial reporting used for business and publication, and ensuring the compliance with the relevant legislation and regulations.

During the year under review, with the assistance of an external advisor, the Company has conducted a high-level risk assessment and the report was presented to the Board. Their findings and recommendation for control improvement were present to the Board and Audit Committee.

The Board, through the Audit Committee, has conducted annually reviews of the Group's internal control system for the year ended 31st December, 2006, including financial, operational and compliance reviews and risk management function and assessed the effectiveness of internal control.

# Corporate Governance Report

Based on the evaluations made by the Audit Committee, the Board considered that the internal control systems of the Company and its subsidiaries are effective and the Audit Committee have found no material deficiencies on the internal control system.

As an integral part of good corporate governance, the Board and the senior management will continue to monitor and will pull more effort to strengthen the effectiveness of the internal control system in the forthcoming year.

## 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@daido.hk](mailto:irelations@daido.hk).

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. According to the CG Code requirement, the chairman of the board should arrange for the chairmen of the Audit, remuneration and nomination committees to answer the questions at the general meeting. As the chairman of Remuneration Committee was not available to attend at the annual general meeting of the Company held on 25th May, 2006 in person, he had delegated the Chairman of the Board to answer the question at the annual general meeting on his behalf.

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. In order to provide effective disclosure to the 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.irasia.com/listco/hk/daido/](http://www.irasia.com/listco/hk/daido/) & [www.daidohk.com](http://www.daidohk.com)) which includes the latest information relating to the Group and its businesses.